Catalyst for a new industry

Jumeirah Central, the huge development taking shape in the city, has the potential to turn the emirate into a centre for real estate capital, says its chief operational officer, in much the same way as happened in Singapore, **writes Michael Fahy**

Morgan Parker, the chief operating officer of Jumeirah Central, left, gives a talk on the Jumeirah Central development. Kamran Jebreili / AP Photo

Morgan Parker, the chief operating officer of Jumeirah Central, argues that one of the intended benefits of the Dh73.5 billion development will be the role it plays as "the catalyst for the growth of a new industry" in Dubai.

Mr Parker, a property finance industry veteran who worked for much of his career in the Asia Pacific region before joining Dubai Holding in March 2015, compares the opportunity in Dubai to the landscape in Singapore 20 years ago.

He says that Singapore in the mid-1990s was "very similar to Dubai in many ways ... where you had four or five often government-related conglomerates owning a large percentage of commercial real estate assets".

In Singapore, due partly to a search for liquidity, many assets were spun out into listed vehicles in a bid to attract overseas investment.

"Fast forward 16 to 17 years and what you see is Singapore behaving as the centre of real estate capital in the Asia region. It has created an industry with tens of thousands of jobs.

"There are fund managers, asset managers, property managers, valuers, real estate lawyers that now are drawn to Singapore for employment.

"Because of the fact that once this real estate goes from the private hands of government-related entities and into public companies, you now have a different ownership ecosystem which requires an industry to be built around it."

Although he says that the flow of institutional capital into the Middle East is currently "negligible", he believes that this can be recreated with the right type of investment-grade product.

"I think our leadership quickly identified the opportunity for Jumeirah Central to be much more than just another urban master plan, but actually become the catalyst for the growth of a new industry. We, as a company, have a history of doing that," says Mr Parker.

"Tecom is not just another master plan. Media City and Internet City aren't just real estate projects. These are actually catalysts for the development of certain industries in Dubai."

CBRE's annual In and Out report governing global capital flows points out the scale of the challenge Mr Parker faces. Despite the lower oil price, the amount of money that was spent on commercial real estate outside the Middle East by local buyers almost trebled in 2015 to $16bn – from $5.5bn a year in the prior two years.

However, it said the market for inward investment into the Middle East "continues to see only marginal investment volumes".

Matthew Green, the UAE head of research and consultancy, said that "the market's full potential is still to be realised amid limited availability of investment grade product, low investment volumes and a general disconnect between the valuation of buyers and sellers".

Mr Parker knows the issues faced. He acknowledges that there has been a lack of investment-grade commercial real estate available for sale to institutional buyers, with transactions involving built-for-purpose Dubai headquarters for Standard Chartered and HSBC being two recent examples.

"There is one of those every three or four years compared to Singapore, Hong Kong or London where there is one of those types of transactions occurring every month."

He says there has been plenty of investment-grade buildings developed in Dubai, most notably shopping centres, but most of these have been held as long-term investments by their owners. He also says there has been a "hesitancy or a lack of understanding" regarding Dubai's legal system.

"It's not a simplistic market," he acknowledges.

On top of this, there has been "a lack of maturation in the real estate financing market on the banking side", he argues, with local lenders often unwilling to offer non-recourse loans to the special purpose vehicles (SPV) often used by institutional investors to purchase assets, instead insisting on corporate loans with specific guarantees.

Yet he believes that none of these problems are insurmountable, and says Jumeirah Central has been devised to remove as many obstacles as possible for the types of pension funds, sovereign wealth funds and asset managers it is targeting.

For instance, many of the 278 buildings that will eventually be created on site will be of a scale that would be of interest to them.

There is 47 million square foot of property planned for the site in total, including 9 million sq ft of retail, 7.5 million sq ft of offices, hotels with a total of 7,200 rooms and 11,000 homes. The first phase comprises 17 million sq ft, including 12 office projects ad 14 hotels.

"There's an old saying in the industry which is that to do a small deal is just as much pain as to do a big deal because it involves the same level of analysis and due diligence," says Mr Parker

He says the "sweet spot" for institutions is assets with a value of about $100 million. "When you get up to $300m to $400m that narrows. When you get to $1bn, you're talking about half a dozen companies that will buy a $1bn building."

It is attempting to create assets that fit these requirements as a result, with a couple of office towers being presented to investors at Mipim next month being "premium, Grade A international-style office buildings" comparable only to the $1bn Brookfield Place building currently being built at Dubai International Financial Centre, according to Mr Parker.

On the legal front, Mr Parker says that it will also use the DIFC Courts, with assets on the site benefiting from "a very clear legal structure".

"We believe that the DIFC, which has been created for the purposes of promoting this very type of investment, is an excellent opportunity for us to create the legal transparency and environment that is most conducive to attracting inbound institutional investment.

"So we are not asking institutional investors to come and partner with Dubai Holding onshore. What we are doing is saying here is a project or an asset in an SPV, in the DIFC, so it's very, very clear." In terms of finance, he says it has been a matter of spending time with local lenders to promote a greater understanding of the requirements of institutional capital.

"It's a bit of chicken and egg that we need to work through over the coming years. If you can get the right investors to the table who bring with them the credibility and the due diligence that they go through and the patience of capital and the intent to own assets long term, you are going to see banks responding to that."

Ultimately, though, he argues that the main selling point for institutional investors will be the site, its connectivity and a master plan designed to create a vibrancy of mixed uses with lots of parks and other public spaces.

"If we're to grow the economy further – which is one of the key reasons for Dubai Holding existing – we must look for ways to also diversify the ownership and investment in real estate, which is one of the key assets of this city," says Mr Parker.

He argues that from the evidence of discussions it has already held with potential investors, there is a desire to invest in the right type of product in Dubai. "What is so appealing to those investors is that it gives them an opportunity to create some geographic diversification, which they are looking for," Mr Parker says.

"They're all saying 'We'd love to have some exposure to the Middle East.' They're sitting there and they have billions of dollars to invest, they're obviously looking to manage risk and get their customers exposure to areas of the world that are growing. They want to have a certain amount in the Middle East, but for most of them it's something they haven't been able to invest in.

"If we can provide that for them it will open a channel that others will start to flow through."

Mr Morgan also argues there is no pressure from anyone to ensure any buildings – not even the Dubai Live entertainment area – would be complete by Expo 2020.

Although he expects that the first buildings will be operational in 2020-21, that's "not because of Expo, but because that's when they are going to be ready". "We don't feel that any part of our phase one needs to be in place. We're really more focused on 2021 and the next 20 years. "What we're really looking to demonstrate is a stability and a vigilance to deliver a very strategic district for the city in a very, very calm and deliberate way. It's all about economic stability and that permeates all of the decisions we are making. That's what institutional investors are looking for and that's what we are continuing to demonstrate in our thinking."

Gaurav Shivpuri, the head of investment transactions at JLL Mena, agrees that a lack of transparency and "a weak legal system around real estate ownership and asset management" have been factors that have held back institutional capital investment in regional real estate assets.

However, he believes this is already in the process of changing.

"The market will continue to become more institutional over time just like the more mature western markets.

"The timeline of this will depend on how soon the market players adopt global best practices in development, leasing and management of real estate," he says.

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Jumeirah Central to be showcased in Cannes