Dubai’s services sector overview

- **The services sector** (including real estate and business services, hospitality, transport, communication, personal and social services) is the largest in Dubai’s economy, recording a share of 37.2% of total GDP in H1 2014, and employing roughly 33% of Dubai’s workforce.

- Within Dubai’s services sector, transport ranks first accounting for 14.8% of Dubai’s GDP in H1 2014, followed by real estate and business services (14%), hospitality (5.5%) and personal and social services (2.9%) for the same period.

- Dubai’s services license issuance increased by roughly 8% y/y in 2014. Between 2010 and 2014 new services license issuance increased at an average of almost 10% per year. This steady increase indicates the growing interest among services firms to establish operations in Dubai.

- Rising visitor numbers suggest that transport services will be a key driver of growth in coming years. With DXB being the world’s busiest international airport, passenger traffic is expected to exceed 78.4 million at DXB by the end of 2015 and 103.5 million by 2020, according to Dubai Airports.

- UAE’s transport projects underway serve as an indicator of the increased capacity being added. The value of transport projects last year was USD 51.8bn, accounting for 36.2% of total MENA transport projects.

- The real estate and business services sector should also benefit from Dubai’s medium term residential and commercial property outlook which is now more balanced as population and economic growth should underpin demand in the run-up to 2020, while supply is expected to increase.

- Hospitality sector data also indicate that Dubai is on its way to achieving the ambitious travel and tourism strategy by the end of the decade therefore further boosting the hospitality services sector.

- Our analysis shows that bank credit to the services sector jumped to 18% y/y in 2014. Loans to this sector accounted for 5.5% of total bank loans in 2014. In 2014, bank credit of the top 10 UAE banks to the services sector reached AED 76bn compared to AED 65.5bn for 2013.

**Top 10 MENA transport projects underway, % of total USD 143bn, 2014**

- **DWC Expansion** 22.4%
- **Emirates Roads** 7.5%
- **Riyadh Metro Line 3** 6.6%
- **Saudi Railways** 5.9%
- **Riyadh Metro Line 4-6** 3.6%
- **Algerian Autoroute** 3.7%
- **Etihad Railways** 4.3%
- **King Abdulaziz International Airport, Saudi Arabia: Phase 1** 2.8%
- **Other** 37.7%

*Source: MEED, Emirates NBD Research*
Dubai’s services sector overview

The services sector (including real estate and business services, hospitality, transport, communication, personal and social services) accounted for 37.2% of total GDP in H1 2014. Growth in tourism with steady rise in airport passenger traffic and high hotel occupancy rates, a balanced residential and commercial environment, increased consumer confidence matched with solid transportation and logistics infrastructure, are the key drivers of Dubai’s robust services sector performance.

Within Dubai’s services sector transport ranks first, accounting for 14.8% of Dubai’s GDP in H1 2014, followed by real estate and business services (14%), hospitality (5.5%) and personal and social services (2.9%), for the same period. The hospitality services sector however is the fastest growing sector for the last three years, up by roughly 15% on average.

Dubai’s services sector, % GDP, H1 2014

Source: Dubai Statistics Center (DSC), Emirates NBD Research

According to the Dubai Statistics Centre (DSC), between 2011 and 2013, the total number of workers in the services sector increased at an average of roughly 13% per year to 776,670 workers representing 33% of Dubai’s total workforce. According to the 2020 Expo’s strategic objectives, an estimated 277,000 new jobs will be created over the next six years with 70% of this (or 193,900 jobs) directed to the services sector.

Services license issuance

The net number of services licenses issued in Dubai increased by roughly 8% y/y in 2014, accounting for 21% of total business licenses. According to the Department of Economic Development (DED), between 2010 and 2014 the net number of tourism licenses issued increased at an average of roughly 10% annually indicating an improvement in the business environment. By the end of 2014, 29,242 services licenses had been issued in Dubai. As the chart shows, there has been a steady increase in services licenses since 2010.

Dubai’s services business licenses*, 2014

Source: Department of Economic Development (DED), Emirates NBD Research

UAE consumer confidence

UAE consumer confidence improved in Q4 2014 with a reading of 114, according to Nielsen’s UAE Consumer Confidence Survey. The UAE index which recorded its highest score of 114 for a third time so far, recorded a four-point increase from Q4 2013. The outlook for the UAE economy is positive, with growth being driven this year largely by the non-oil sector as investors started to look ahead to the Dubai 2020 Expo. Separately, UAE’s population was revised upwards and will reach roughly 10.8 million over the next five years, according to the IMF’s latest World Economic Outlook. With an estimated 70% of the UAE’s population within the 20-39 year age bracket and with a rising GDP per capita, the UAE’s as well as Dubai’s services sector growth outlook is positive.

UAE Consumer confidence

Source: Nielsen, Emirates NBD Research
Dubai’s services sector strategy on track

Transport

Increasing passenger traffic and investment in infrastructure suggest that transport services will be a key driver of growth in services sector over the coming years. Passenger traffic in Dubai rose to 70.5 million in 2014, up by 6.1% y/y. DXB is now the world’s busiest international airport serving more than 125 airlines flying to over 260 destinations across all continents. In December alone, 6.5 million passengers passed through Dubai International Airport (DXB), up by 7.5% y/y. Passenger traffic is expected to exceed 78.4 million at DXB by the end of 2015 and 103.5 million by 2020, according to Dubai Airports.

Passenger traffic and freight volumes at DXB, 2014

Source: Bloomberg, STR Global, Emirates NBD Research

Capacity is being added at Dubai’s second airport, Al Maktoum International at Dubai World Central. In early 2015, a USD 32bn airport expansion plan was announced that would ultimately allow the airport to accommodate more than 200 million passengers per year. The first phase is expected to be completed by 2020-2022, with total new capacity of 120 million passengers. The expanded airport could accommodate 100 A380 aircraft at one time.

Freight volumes at Al Maktoum International at Dubai World Central (DWC) reached record levels in 2014, according to Dubai Airports. Freight volumes at DWC surged 262.5% to 758,371 tons in 2014 compared to 209,209 tons in 2013, due to the shift of all freighter operators from Dubai International Airport (DXB) to DWC during the summer. DWC’s freight reading for Jan-Nov 2014 places DWC within the top 40 leading freight handling airports competing with Osaka’s (KIX), Cologne’s (CGN) and Abu Dhabi’s International Airport (AUH) for the same period.

The value of transport projects currently underway serve as an indicator of the increased investment in the transport services sector which will boost capacity for future growth. USD 51.8bn or 36.2% of total MENA transport projects are currently underway in UAE. The UAE ranked first in the region in terms of transport projects value, followed by Saudi Arabia and Qatar with 31.7% and 9.7% of the total figure respectively. Despite the recent drop in oil prices, the prospects for UAE’s transport projects for 2015 remain positive.

Passenger traffic in Abu Dhabi also rose to 20 million in 2014, the highest passenger traffic figures in AUH’s history, up by 22% y/y. In December alone, 1.83 million passengers passed through Abu Dhabi International Airport (AUH), up by 21.7% y/y. Passenger traffic is expected to exceed 30 million passengers when the iconic Midfield Terminal Complex (MTC) will become operational by 2017, according to Abu Dhabi Airports.
Real Estate and Business Services

The real estate and business services sector should also benefit from Dubai’s medium term residential and commercial property outlook. Population and economic growth should underpin demand in the run-up to 2020 while supply is expected to increase. Home prices declined slightly m/m for mid and high end villas while all other segments of Dubai’s residential real estate market remained unchanged in February 2015, according to the data from Cluttons. Mid and high range villa prices declined by -7.4% y/y and -1.1% y/y respectively, with annual price growth slowing in all segments of the market. Higher transaction fees and the introduction of mortgage caps have helped to cool off the 2013 double digit price growth.

Dubai: Residential property price growth, % y/y, February 2014

In the commercial sector, real estate prices continued to rise in Q4 2014 for both prime and secondary segments. Prime commercial real estate prices averaged AED 235/ sq. ft. in Q4 2014, up 17.5% y/y. Secondary commercial real estate prices averaged AED 115/ sq. ft. in Q4 2014, up 21.1% y/y.

Dubai: Commercial property price growth, % y/y, Q4 2014

Hospitality

Hospitality sector data also suggest that Dubai is on its way to achieving the ambitious travel and tourism strategy – which aims to attract 20 million visitors to the emirate by the end of the decade. Achieving this will require substantial growth in capacity in transport, hospitality and leisure infrastructure. In 2014, Dubai’s hotels received 11.6 million guests, up by 5.6% y/y, according to Dubai Department of Tourism and Commerce Marketing (DTCM).

The substantial growth in the supply of accommodation is already being reflected in slightly lower hotel occupancy rates. Dubai’s hotel occupancy averaged 78.7% in 2014, down from 80.2% in 2013. With the supply of hotel rooms in Dubai expected to outpace demand growth over the next few years, we expect occupancy rates to remain stable or ease slightly until demand catches up as we approach the 2020 Expo. According to the data from STR Global, the supply of hotel rooms in Dubai increased by 7.8% y/y in 2014 exceeding the 5.7% demand growth for hotel rooms the same year. There were 848,111 hotel rooms available (25.5mn room nights) in Dubai in 2014.

Meanwhile, revenue per available room (RevPAR) growth fell sharply. In 2014 RevPAR growth was 1% compared with 8.9% growth in 2013. RevPAR stood at an average AED 699.6 (USD 190.5) in 2014 compared to AED 692.9 (USD 188.6) the previous year.

Dubai hotel occupancy rates and RevPAR, 2014

Although the average daily rate (ADR) charged by hotels has risen in 2014, growth has been at a slower pace than 2013. That is, hotels in Dubai have increased their ADR by 2.5% y/y compared to 6% y/y the previous year suggesting weaker pricing power. The strength of the USD is also likely to limit hotels’ ability to raise rates this year.
Bank credit to the services sector

Our analysis shows that bank credit to the services sector jumped to 16% y/y in 2014. Loans to this sector accounted for 5.5% of total bank loans in 2014. In 2014, bank credit of the top 10 UAE banks to the services sector reached AED 76bn compared to AED 65.5bn for 2013.

Top 10 UAE Bank credit by sector, 2014

Looking at the breakdown of services loans by banking institution, First Gulf Bank (FGG) had the largest share with 28.7% (AED 21.8bn), followed by Dubai Islamic Bank (DIB) with 24.4% (AED 18.5bn) and Mashreq bank with 10.1% (AED 7.7bn) of the total services loans for 2014.

Bank credit of the top 10 UAE banks to the services sector, % of total, 2014

Not only would there appear to be scope to further increase the availability of credit to the services sector as a whole over the coming years, but there also appears to be the potential for bank credit to further support the services sub-sectors in order to diversify the base.

Bank credit of the top 10 UAE banks to the services sector, in AEDbn, 2014

**DIB bank credit data for Manufacturing and Services

Source: 2014 Financial Results, Emirates NBD Research


- **Average daily rates Dubai hotels, 2014**

  - Average Daily Rate, USD (LHS)
  - Average Daily Rate, y/y growth, 3M Moving Average (RHS)

  Source: Bloomberg, STR Global, Emirates NBD Research

- **Bank credit to the services sector, % of total, 2014**

  - FGG 28.7%
  - DIB 24.4%
  - ADCB 1.6%
  - RAK, 4.2%
  - UNB, 4.4%
  - CB 7.1%
  - ENBD 7.5%
  - NBAD 9.1%
  - Mashreq 10.1%

  Source: 2014 Financial Results, Emirates NBD Research

- **Bank credit to the services sector, in AEDbn, 2014**

  - 2013: 21.8, 18.0, 7.5, 7.7, 7.0, 6.6, 6.9, 3.2, 1.9, 1.6, 0.7
  - 2014: 18.5, 14.2, 7.7, 7.0, 6.8, 6.9, 5.4, 3.3, 1.2, 2.1, 3.2

  **DIB bank credit data for Manufacturing and Services

  Source: 2014 Financial Results, Emirates NBD Research

- **Top 10 UAE Bank credit by sector, 2014**

  - Personal: 22.5%
  - Real Estate: 15.2%
  - Government: 18.2%
  - Financial Institutions: 11.1%
  - Trade: 6.6%
  - Banks: 7.1%
  - Services: 5.5%
  - Manufacturing: 4.5%
  - Construction: 2.7%
  - Transport: 2.7%
  - Other: 3.9%
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