

THE ISLAND MAKERS

The company at the heart of Dubai's construction and development miracle is well into an international expansion phase that includes Australia. By **Mark Mentiplay**

The latest news to add to the incredible Dubai growth story is plans to build five more 100 floors-plus super towers over the next five years, which are in addition to the seven currently being developed.

This will give Dubai the highest number of such super towers in the world, all of which will rise over 600m – topped by the majestic statement that is Burj Dubai, currently at 160 floors and the world's tallest such tower.

The new super towers are part of 11 mixed-use projects, worth more than \$A7 billion, included in a major master plan development expected to be officially announced in October.

Such plans, along with other recent developments and a population of about 1.7 million forecast to double in the next decade, pour cold water on criticism that what is happening in Dubai is any sort of bubble.

Nakheel, with an international asset portfolio worth about \$A85 billion, is a major player in the emirate's power play. It has already overseen about 50% of all the building carried out in Dubai over the past 10 years and Nakheel chief executive Chris O'Donnell told *Contractor* the company plans to be among the world's top three retail developers within 10 years.

Recent profitability, land sales and capital raisings underline the faith of international investors in the Dubai vision. The latest of these was the listing of a two-year, \$A1 billion-plus sukuk, or Islamic compliant bond, on the Dubai Stock Exchange and guaranteed by Dubai World.

The deal came after an extensive road show through the United Arab Emirates, Bahrain, Saudi Arabia, Qatar and the United Kingdom reaped orders for over \$A1.2 billion.

The Middle East took 88%, with the rest going to international accounts.

In December 2006, Nakheel listed the world's largest sukuk of \$A3.7 billion, followed by a further \$A784 million sukuk in January this year.

The company is also aiming to raise a further \$A2.54 billion via a \$A1.6 billion infrastructure Real Estate Investment Trust and another \$A940 million residential REIT, both expected to be listed on the Dubai and Singapore stock exchanges.



Some of the 300 islands in Nakheel's The World development take shape.

O'Donnell said he expected the company would retain between 30% and 50% of the REITs and management. A final decision, including from where the assets would be drawn, was expected before the end of the year.

Nakheel is also considering another major capital raising via a partial float and a decision on this is expected in 2009 – about the time Australian company Leighton Holdings is expected to float its joint venture with the Dubai-based diversified Al Habtoor Group on the Dubai Stock Exchange. Leighton bought a 45% stake in Al Habtoor Engineering for \$A870 million last year.

O'Donnell said an initial public offering was one option, with others being private investment and sales from Nakheel's massive 2.5 billion square feet land bank.

Industry sources have speculated a float could involve about 20% of the company, but Nakheel says it is far too early to speculate.

Amid these capital raising activities, Nakheel

also achieved land and property sales of approximately \$A6.6 billion in the first four months of this year, compared with \$A5.7 billion for the whole of 2007. Nakheel's 2007 net profit was up almost four-fold to \$A1.33 billion.

"Whatever may be happening in credit markets elsewhere, investors here are really seeing how robust the Dubai real estate market is," Nakheel chief financial officer Kar Tung Quek said.

Australia remains a definite, but still "wait and see" proposition for O'Donnell, who, before joining Nakheel in June 2006, was managing director of the Investa Property Group in Australia for five years.

Nakheel's first move into Australia was via a 6.5% stake in the real estate-based Mirvac Group in December last year, topped up to 12.5% a month later at \$A5.20 a share. Mirvac, with \$A28 billion in activities across real estate, funds management and development, was trading at a lowly \$A3.20 at the time of writing.

Nakheel plans to join Mirvac and Leighton to bid for the massive Barangaroo urban regeneration on Sydney Harbour.

While ruling out a full takeover of Mirvac, O'Donnell said Nakheel was doing a lot of research, but without anything concrete to announce at present.

He said that subsequent to the US sub-prime fallout, the company had been bombarded with opportunities by investment banks from all over the world. These deals included troubled Australian Centro Properties, which Nakheel found "too difficult to unravel".

"I can't tell you how many investment banks turned up in Dubai showing us the best bargains in the world," he said.

"When you are being bombarded with that sort of information, you are best to do nothing. It is really a ridiculous situation.

"We are looking at major projects and investments. Australia is a small market, but quite a mature one. It is important for us to be part of that market and it sits nicely with our aspirations in Asia."

Nakheel's current developments fit well with Dubai's vision to create iconic structures, cultural and economic statements. They include three multi-purpose Palm island projects, The World and The Universe island developments, and The Waterfront, a brand new city for 1.5 million people (a shade under Dubai's current population) and the largest multi-purpose

waterfront development in the world, due for staged completion by 2018.

On completion, Nakheel's waterfront projects will add over 1000km of shoreline to Dubai's original 70km coast.

The first Palm island development, the 560 hectare Palm Jumeirah, has been built and provides some idea as to the scale of the even bigger projects now underway.

Ultimately the Palm Jumeirah will have more than 30 luxury beachfront hotels, including the Trump International Hotel and Tower; the Atlantis resort and theme park opening in September; the converted QE2 cruise liner in 2009; and a permanent Cirque du Soleil theatre towards the end of 2010.

Leighton's Arabian Gulf operations have been awarded a \$A420 million chunk of the contract to build the Trump Tower. The \$A841 million project will be completed by a joint venture between Al Habtoor Leighton and South Africa-based construction and engineering group Murray & Roberts.

Work on the 62-storey high-end, mixed-use hotel, residential, retail and office development is scheduled to begin this month for completion in May 2011.

Half of the 300 man-made archipelago islands off the coast of Dubai that make up The World project have been sold. The islands, available by invitation only, cost up to \$A50 million each depending on size and are available

With phased development out to 2018, the mainland component covers 13km by 7.5km and a six-island archipelago stretches 15km out into the Arabian Sea. Eighty percent of the

mainland earthworks – 25% of the total – have been completed.

Nakheel is coy about The Waterfront's total costs, but Waterfront managing director



Nakheel's Palm Jumeirah development is now built and expected to be fully developed within six years.



Nakheel chief executive Chris O'Donnell.

to individuals and-or companies to establish their own projects. The first of these company developments is scheduled for completion by the end of 2010.

But the jewel in the Nakheel crown is the creation of The Waterfront – a new city to house a population of 1.5 million and covering 13,000ha being wrought from the desert and the sea from scratch.

The numbers are staggering. Suffice to say the project is the biggest waterfront development in the world, with a land area twice the size of Hong Kong island.

Matt Joyce told *Contractor* over \$A5 billion had already been spent on the project with another \$A3.4 billion allocated to current onsite contracts. It is understood Dubai World has allocated at least \$A14 billion in additional approved capital.

Waterfront director Marcus Lee said Nakheel was planning a series of forums soon for potential contractors and suppliers "to identify those suitable early on and bring them along through the whole process".

Although massive in its entirety, Lee described The Waterfront as "a large development, made up of lots of bits".

For this reason, he said the company had largely adopted Guaranteed Maximum Price contract procedures with agreed margins under which the principal shared in the upside cost risk, while passing downside cost risk to the contractor.

O'Donnell also pointed to the traps set in the region by rapidly rising costs that have caught many selling off-plan two to three years ahead of construction, only to be clobbered later by big construction cost increases.

"We don't start selling until we have a construction plan in place and then only 33 percent, another 33 percent through actual construction and we hold on to the rest, depending on the market," he said.

Mark Mentiplay travelled to Dubai as a guest of the Nakheel group.