



# Middle East Real Estate trends 2024

Building Cities of the Future





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# Executive summary

## Middle East real estate market trends

### Building more sustainable cities with a systems approach

When it comes to addressing the critical sustainability challenges we face today, cities are a crucial part of the solution. On the one hand, adopting the necessary solutions is difficult when cities have such complex and interlinked systems. On the other, a systems approach can provide a more impactful, longer lasting, and, over the long run, less expensive outcome. As we tackle our world's sustainability challenges, we need to unpack and understand these systems in order to rebuild them in more sustainable ways.

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### Funding and financial readiness

Given the ongoing stream of giga-projects and the continuation of 'business as usual' developments in the Middle East, financing is emerging as a critical matter requiring attention from project sponsors, executive management and boards. The existing capacity of domestic capital markets and their historic allocations to construction activities will likely be stretched by the scale of demand in the coming years. Consequently, international capital will play a crucial role in addressing the funding and financing gap and aligning with wider government strategic objectives to boost Foreign Direct Investment (FDI).

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### Shaping the future of Middle East retail

The retail sector is set for significant growth in the near future. Areas such as online retail, cross-border commerce and direct-to-customer services are expected to emerge as key drivers of this growth for retailers. Additionally, new technology such as generative AI can be implemented across various functions of the business resulting in an increase in the overall efficiency of organisations.

# Building more sustainable cities with a systems approach

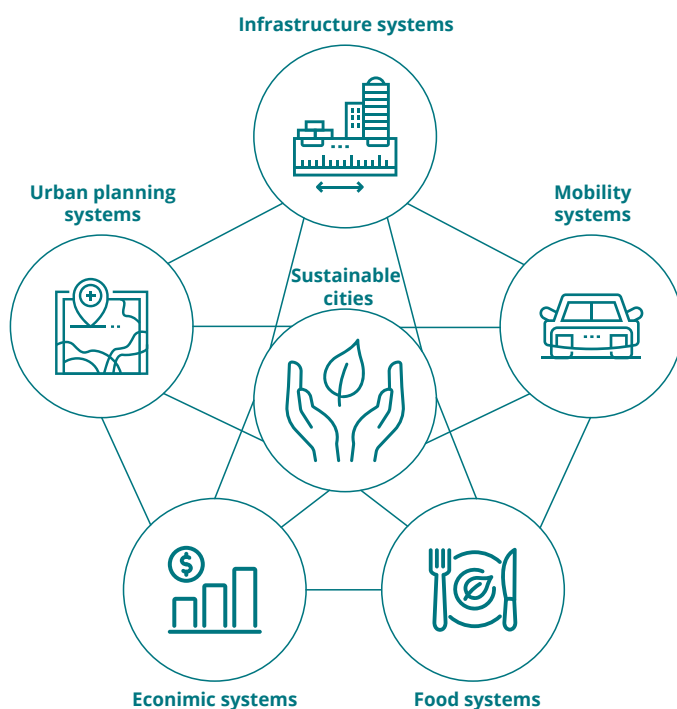
Cities are a key piece of the puzzle for delivering solutions to the sustainability challenges we face today.

Cities account for approximately 75% of global emissions<sup>1</sup> and produce 10 billion tonnes of waste annually.<sup>2</sup> Urban areas have grown at an average of 2% each year from 1990 to 2020, which has led to the loss of biodiversity and natural habitats.<sup>3</sup> Around 70% of all food produced is intended for urban consumption, further contributing to deforestation and the loss of natural green spaces.<sup>4</sup>

To tackle these challenges effectively, it is imperative to examine the systems that govern a city's operations, unpack them and

understand their functionality. By acquiring this insight, we can rebuild them in more sustainable ways.

While numerous different systems dictate daily activities in a city, there are a few that are absolutely critical to determining how sustainable a city is: infrastructure systems, mobility systems, food systems, economic systems, and urban planning systems. Each of these systems present opportunities to reconsider how we manage our cities in more sustainable ways.



## Infrastructure systems

Our built environment is the most fundamental aspect of our cities. The buildings, utility networks, roads and sidewalks, and public spaces define our lives as urban residents. As one of the most enduring features shaping our cities, it is crucial that our infrastructure is constructed in the most sustainable way possible.

### Transitioning to more sustainable infrastructure design

Buildings contribute to 30% of global emissions<sup>5</sup>; embracing opportunities to decrease emissions across the lifecycle of our buildings is essential. This can include using more sustainable materials, adopting smarter heating and cooling systems, and managing maintenance and renovation to reduce wastage. Solutions already exist in all these areas; the challenge will be establishing standards which ensure they are being used.

### Investing in infrastructure upgrades and avoiding infrastructure destruction

By older standards, our buildings today are incredibly fleeting. It is imperative to re-establish the importance of building not for a season or a lifetime, but for an age. Using longer-lasting materials and designing buildings to allow for easier upgrading over time will be key.

Source: <sup>1</sup>UNEP; <sup>2</sup>UNEP; <sup>3</sup>UN; <sup>4</sup>FAO; <sup>5</sup>IEA

## Mobility systems

Any city that aspires to become more sustainable must address mobility. This includes private cars transporting individuals from suburban homes to city jobs, lorries facilitating daily product movements, and airplanes connecting cities. Transforming these local, regional and national mobility systems is vital.

### Improving public transportation

In modern cities, a fast, reliable and cost-effective network of public mobility is essential. Various options such as electric trolleys or trams, wider subway networks, or even maglev trains are available. Of course, all these infrastructure expansions will entail emissions themselves, which must be taken into account and mitigated. However, over time, investment in this infrastructure is crucial.

### Creating more walkable and bikeable neighbourhoods

The shift to more localised communities within cities (the '15 minute city' concept) is important, but it isn't sufficient on its own to ensure people opt for walking or cycling. Essential factors include efficient spatial planning to establish practical routes,

cultivating a comfortable and inviting environment, and prioritising safety to promote walking and cycling as the preferred choices.

### Shifting to more sustainable private transport

As some will prefer private transport for convenience, speed or privacy, promoting a complete transition to Electric Vehicles (EVs) will require substantial infrastructure investments and government initiatives to incentivise the change. This includes measures such as reducing or removing tolls, subsidised EV charging stations, EV purchase support, etc. Moreover, private sharing options need to be enhanced beyond just traditional ride-sharing. This could include, for example, automated individual car 'pods' which can be programmed to facilitate tasks such as taking an elderly person to their doctor's appointment.

## Food systems

Food is one of the most fundamental human needs, making it integral to addressing our sustainability challenges. The severe impacts of climate change, such as droughts, floods, heatwaves and extreme weather, which directly impact global food systems, combined with the persistent issue of insufficient food for many around the world, mean that urgent solutions are required.

### Promoting urban agriculture offers numerous benefits by utilising urban land for farming purposes

This approach can notably reduce or eliminate emissions linked to food transportation, decrease the environmental footprint of food production on biodiversity and natural surroundings, generate economic prospects for local communities, and enhance access to nutritious food. Actions such as dedicating urban land to agriculture, constructing vertical farms, providing financial incentives to urban agriculture enterprises, advocating for individual/family/community vegetable gardens, and encouraging a shift towards more plant-based diets, can all contribute.

### Efforts to reduce and manage food waste are critical

Despite the fact that 70% of the global food supply is allocated for urban consumption, a substantial portion ends up discarded. Issues such as inadequate planning, improper storage or packaging, and a lack of concern about food wastage contribute to this problem. Implementing practices like increased composting, establishing food redistribution programmes, deploying AI-powered food management systems, integrating blockchain for transparent food supply chains and raising public awareness e.g. through 'green nudging', are existing solutions that can be expanded within cities.

## Economic systems

Cities drive economic growth, contributing over 80% of the global gross domestic product (GDP).<sup>6</sup> However, our economic growth often conflicts with sustainability objectives. The continuous consumption, expansion and extraction to fuel this growth negatively impacts our environment, yet maintaining or enhancing the quality of life for billions worldwide requires economic advancement and equitable opportunities. Reassessing how the economic systems within cities balance these two imperatives is crucial.

### Valuing natural capital and directing investment accordingly

National and city-level economic measures such as GDP fail to account for our natural or social capital; business profit metrics overlook these aspects as well. Adjusting these metrics to incorporate the full spectrum of positive and negative value creation becomes essential to steer investments towards areas that are creating true value.

### Developing green skills and ensuring an equitable transition

Building human capital capable of supporting sustainable transitions is paramount. This begins with educating the younger generation on sustainability, but it also necessitates retraining and upskilling older individuals who are already in the workforce. This approach ensures they can integrate sustainability into their professions and secures robust economic prospects for those whose livelihoods may be disrupted by the shift towards sustainability.

## Urban planning systems

As cities continue to expand, their exposure to climate and disaster risks also increases. A new approach to urban planning, which embeds sustainability in every facet of the city, is needed. Sustainability should be a core consideration alongside all other decisions made by city governments, balancing the city's needs with the environmental and societal impacts of those needs.

### **Bring the city closer to nature**

This could include initiatives such as creating more city parks, integrating plant life into buildings, and preserving biodiversity within and around the city. Regardless of the solution, additional green spaces offer not just aesthetic appeal but also may improve air quality, mitigate urban temperatures, encourage physical activity and enhance mental health.

### **Build greater community engagement**

Making a city more sustainable will require individuals to participate in and support the change. Whether it involves enhancing waste management, adopting more conscientious consumption, opting for the greener transport model, or otherwise living in more sustainable ways, city governments can engage with their communities to build and drive this change.

### **Strengthen local resilience and adaptation**

Cities need to protect their residents from the escalating effects of floods, droughts, heatwaves, extreme weather and more. Upgrading infrastructure, enhancing disaster response and recovery plans, safeguarding emergency relief budgets and adopting traditional or native environmental management measures, all contribute to cities safeguarding their residents and enhancing resilience in the process.

In addressing the current climate challenge, cities play a significant role in the solution. Fortunately, numerous opportunities exist for change and innovation. Reimagining the functionality of our city systems and enhancing their sustainability will contribute to the well-being, prosperity and satisfaction of urban citizens.

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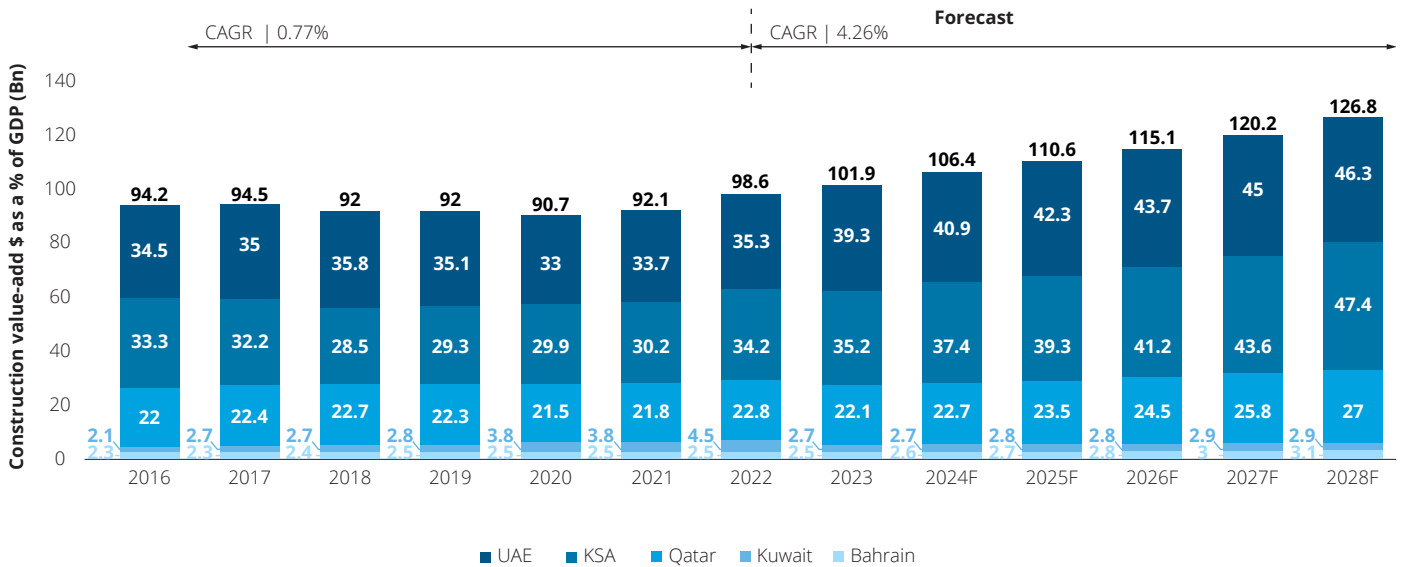
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# Funding and financing readiness: Navigating the regional and global capital landscape

Given the ongoing stream of giga-projects and the continuation of 'business as usual' developments in the Middle East, financing is emerging as a critical matter requiring attention from project sponsors, executive management and boards. The existing capacity of domestic capital markets and their historic allocations to construction activities will likely be stretched by the scale of demand in the coming years. Consequently, international capital will play a crucial role in addressing the funding and financing gap and aligning with wider government strategic objectives to boost Foreign Direct Investment (FDI).

This shift will require a change in private sector involvement and FDI trends, with a focus on alternative delivery models and innovative funding and financing solutions, offering a number of benefits:

- **Unlocking investment:** Facilitating mega-projects and driving economic value creation
- **Enhancing equity returns:** Maximising returns and enabling the efficient recycling of capital
- **Risk transfer and performance incentives:** Instilling accountability, performance incentives and monitoring through private sector partnerships



Source: EIU

However, in a highly-competitive funding and financing marketplace, only the most well-developed schemes and structured deals will secure optimal terms. Meeting the level of scrutiny from international institutional investors and lenders will require mature and advanced business plans as well as delivery

arrangements. This in turn will support successful outcomes. Achieving these financial and non-financial benefits requires that in-flight projects are future-proofed to meet the demands of international capital.



**Strategic considerations for achieving 'market readiness'**

Preparation to attract third-party capital involves addressing internal challenges arising from large, fast-paced and dynamic programmes.

Some of these challenges include:

**Business planning maturity:** Frequently, business planning frameworks lack clear definition. Even where defined, they might be implemented differently across various segments of a development, leading to difficulties in presenting an integrated and holistic business plan that meets investor and lender expectations.

**Single source of the truth:** Basic documentation required by investors and lenders may be scattered among multiple individuals, teams or organisations. The absence of a consolidated set of programme assumptions across the development lifecycle can result in inefficiencies and challenges in maintaining a clear view of the investment case.

**Integrated planning:** Overcoming siloed work practices and managing connections between various inter-dependent aspects of a development e.g. arrangements for the provision of infrastructure assets and services.

Beyond internal and organisational challenges, meticulous documentation and planning are imperative to meet the standards set by international capital.

Key business plan components should be considered early in the development process and consistently refined, including:

**Demand and pricing feasibility:** Demand expectations and pricing strategies for specific assets and services, accompanied by suitable independent evidence, particularly in the context of competing and ongoing developments.

**Financial feasibility:** Strong business plans developed at asset and consolidated levels for funding and financing, underpinned by rigorous independent costings, and clearly demonstrating sensitivity and robustness to key risks. Clear financing strategy which matches opportunities to capital pools based on their risk/reward characteristics, but provides a clear overall view of the impact of different strategic choices.

**Commercial feasibility:** Capacity and capability of the market to deliver the project within set timelines, costs and quality standards. Innovative development schemes and novel construction techniques introduce a variety of market, demand and technological risks that require detailed and structured approaches to attract top-tier investors and supply chains.

**Development feasibility:** Phasing and packing of the programme is often a key input to manage peak funding requirements and optimise the requirements for third-party capital. A clear and robust development plan is critical to any investors and lenders.

**Organisational plans:** Clarity on corporate structure, governance and operating models.

**Legal and regulatory framework:** Clarity on permits, licenses and property regulations.

**Strategic delivery: A critical imperative for C-suite leadership**

A steadfast focus on funding and financing readiness is becoming increasingly pivotal, beginning from project inception through master planning and asset development phases. Senior C-suite sponsorship is essential to drive this process, mitigating risks associated with the potential requirements of international investors and lenders, thereby enhancing project delivery.

# Author

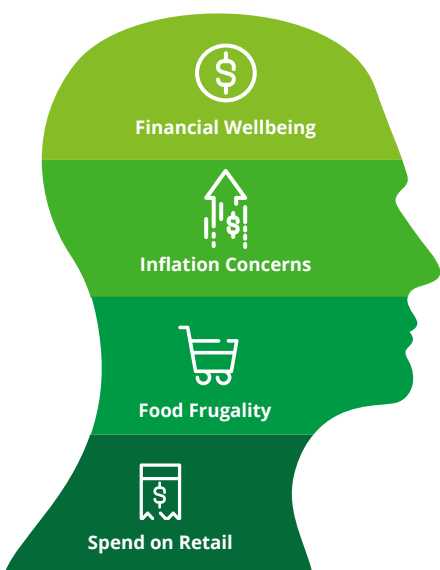
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# Shaping the future of Middle East retail

There is not a lot of difference in consumer behaviour across UAE and KSA; however, the trends vary when compared to other geographies in the world.



Source: Deloitte Consumer Tracker

**77%**  
 Consumers in the UAE felt their finances improved in last one year

**48%**  
 Consumers in the UAE are concerned about inflation

**15%**  
 Consumers in the UAE are concerned about inflation

**27%**  
 Consumers in the UAE are concerned about inflation

**75%**  
 Consumers in KSA felt their finances improved in last one year

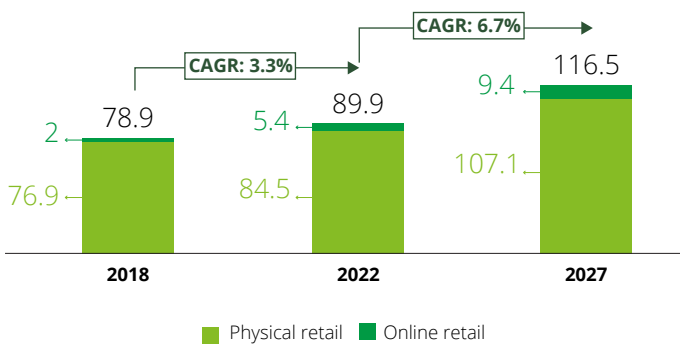
**45%**  
 Consumers in KSA are concerned about inflation

**13%**  
 Consumers in KSA bought low-cost ingredients

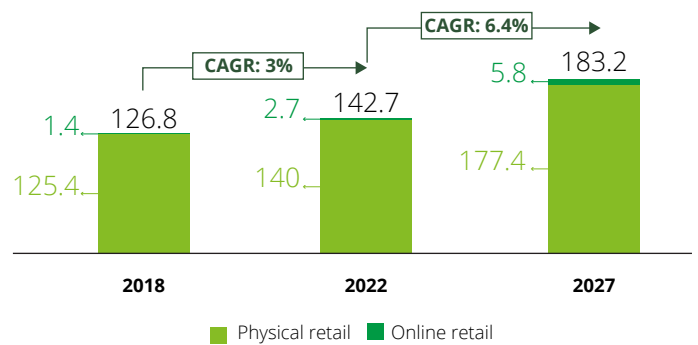
**30%**  
 Of the total money spent by KSA consumers on retail purchases

The retail sector is poised for strong growth in the near future, with online retail, cross-border commerce, and direct-to-customer sales emerging as some of the key growth areas for retailers. Physical retail will remain the dominant channel and as online grows, there will be increased demand for warehouses and logistics facilities.

Retail sales in UAE, US\$ billion (2018 - 2027)



Retail sales in KSA, US\$ billion (2018 - 2027)

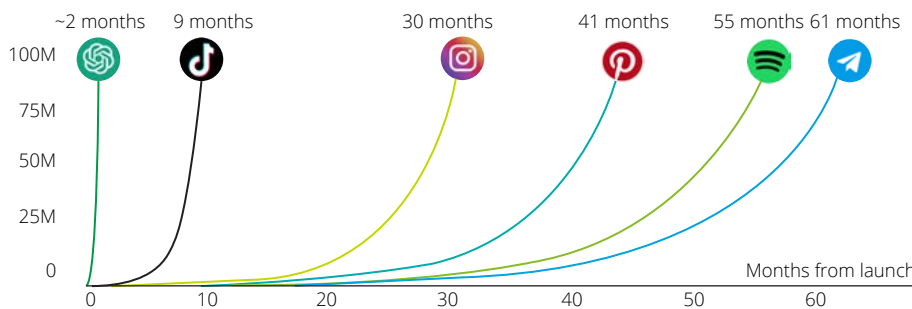


Source: Economist Intelligence Unit (EIU); Mukatafa Report

## New technology – Generative AI

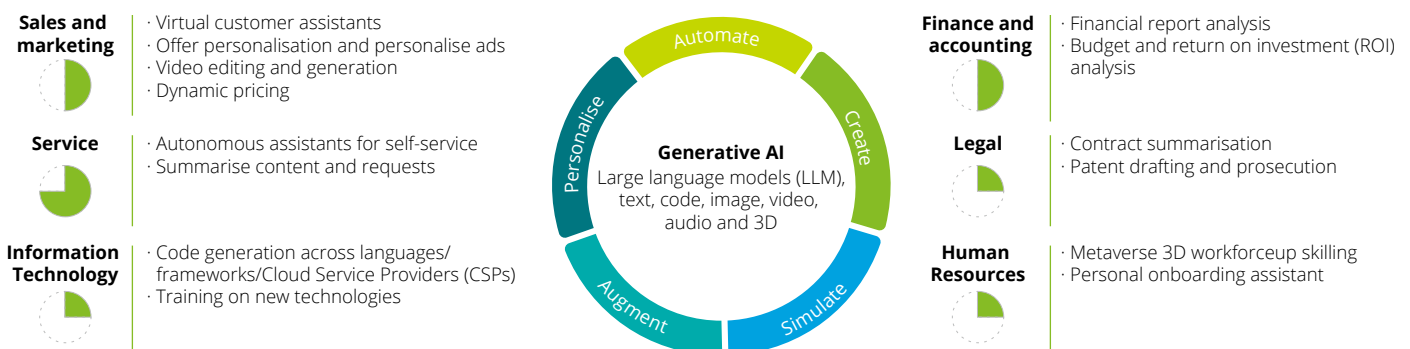
Generative AI has captured the imagination of a wide spectrum, from school students to C-suite executives. Retailers are also capitalising on this technological wave.

### Path to 100 million users



Generative AI has reached **USD 1 billion,** in revenue from startups alone

Implementing Generative AI across various business functions can significantly increase the overall efficiency of the organisation.



In addition to the above, Sustainability and Environmental, Social and Governance (ESG) as well as People and Leadership are key pillars for retail sector growth in the Middle East. The retail industry and its supply chains contribute to 25% of global greenhouse gas emissions. By managing energy consumption, decarbonising transport and adopting sustainable practices such as circular fashion in the value chain, retailers can enhance efficiencies and align with global best practices in sustainability.

Meanwhile, the People pillar needs particular attention and it is imperative to lead and motivate colleagues in a time of significant

change and challenge. This can include:

- 1. Improving the employee experience:** Reimagining reward strategies, Diversity, Equity and Inclusion (DEI).
- 2. Future skills:** Developing the right skills for future-proof organisation including Data Literacy and AI.
- 3. Leadership:** Embedding 'purpose' at the core of all leadership decision-making.
- 4. Facilities Management:** Retailers have large networks of stores and warehouses and there is opportunity and increasing regulatory and consumer demand to make efficient use of energy.

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