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Formula One and real estate — a winning team?



Julian Roche
Chief Economist

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Why host a Formula One race?

The prestige, the tourists— isn't it obvious? Marketing executives and city place-makers alike enthuse that with a yearly cumulative TV audience of 1.8 billion people, 506 million global fans¹ and attendance at each race well into six figures, a Formula One (F1) race creates multiple layers of cultural and economic benefits for a host city.

The costs involved are of course very significant: an estimated \$500 million was spent to construct the Yas Island track, apart from the cost of all related infrastructure such as hotels and roads, as well as an annual payment to F1 itself (except in Monaco) of some \$40 million². Given the costs, sober economists prefer however to reserve judgement on the overall net benefits until they have seen the evidence.

Some of this is easy to find. F1 races certainly do attract tourists: Abu Dhabi estimated 135,000 attendees for its 2018 Grand Prix. About 80,000 of them were visitors from abroad, with the remainder residents. This is scarcely surprising, perhaps, given strong local interest in the sport—the Automobile & Touring Club of the UAE (ATCUAE) was founded as long ago as 1965. Meanwhile,

the Singapore Tourism Board estimated that F1 has earned the country an additional SGD 150 million in tourism revenues annually³; analysis of Singapore's Formula One 2017 race showed a 413% increase in turnover at key restaurants and a 332% jump in visits to shopping malls during the race weekend⁴.

Revenue increases of this magnitude might alone appear sufficient to replenish government coffers. However, governments also rely on the positive externalities that F1 generates—benefits not only to those who are direct participants in F1, such as the Bahraini government, which owns a majority stake in the McLaren Group, but also to those only indirectly involved as residents, taxpayers and investors. It is hard to see that these benefits are anything other than what economists call Pareto improvements, where no one loses. These benefits can be analysed through different economic models: largely initially derived from input-output analysis and subsequently from computable general equilibrium models.

These are all directed at calculating the multiplier effect, which aims at capturing how the expenditure of tourists and teams translates into wider economic activity. For example, it has been estimated that when the Grand Prix heads to Montreal, an additional 640 jobs in the Quebec region are created⁵. Those holding those jobs spend in turn, and the entire economy benefits.



¹ Including the author of this piece

² <https://www.forbes.com/sites/csyllt/2017/03/13/the-1-billion-cost-of-hosting-an-f1-race/?sh=4d429efe4f79>

³ <https://www.reuters.com/article/sponsored/ten-years-on-f1-success-still-paying-dividends-for-singapore>

⁴ <https://blis.com/formula-one-big-boost-singapores-economy-according-research-blis/>

⁵ <https://www.hostcity.com/news/event-bidding/benefits-hosting-formula-1>

There have predictably been several attempts to quantify the economic impact of major events such as F1 on this basis⁶, notwithstanding that it is understandably difficult to obtain hard data, and there are vested interests at stake. Governments elsewhere in the world can compare tax take with spend, a metric unavailable to governments in the Gulf which must think entirely in terms of overall economic activity.

Bahrain, the first Middle East country to host F1 back in 2004, estimated in 2016 that it had already earned around \$1 billion overall from its F1 commitment⁷. True, Bahrain may have experienced the best return on investment (ROI) of any country on its F1 spend, as a result of a notable difference from countries such as the US, where studies have suggested F1 fans and teams 'crowd out' locals from venues⁸. Although PwC equally found that the Azerbaijan Grand Prix in Baku created \$277.3 million of increased economic value in 2016 and 2017, while the Mexican Grand Prix has generated over \$230 million in global media exposure⁹.

Not every F1 race has been calculated as profitable—the early Istanbul Grand Prix races were not, while one estimate for Melbourne suggested that it once lost \$38.8 million¹⁰. Although it is worth observing that despite these alleged losses, Istanbul made a return in 2020 and the Australian Grand Prix remains on the F1 calendar.

There are some complications that should give one pause for thought in such estimates. For example, some cities, such as Miami, also take the view that success is amplified by a series of major events. Abu Dhabi is keen to point out the proximity of the Yas circuit to other tourist attractions, including Ferrari World. For both, there is as yet insufficient evidence to assert the existence of such synergies, however plausible. If analysing past impact is difficult, estimating the future benefit of F1 is even more so. This is not least because, unlike tennis, for example, there is no guarantee that a circuit will host F1 every year: there is intense competition for several races that are approximately half the number of available circuits¹¹.

Forecasts of future value must therefore be passed through a scenario analysis that incorporates an estimate of the probability of hosting a race each year. With strong commitment from host governments, F1 races in the Gulf are well placed in that regard.



⁶ e.g. Kim, M.K., Kim, S-K, Park, J-A., Carroll, M., Yu, J-G and Na, K. (2017) Measuring the economic impacts of major sports events: the case of Formula One Grand Prix (F1). *Asia Pacific Journal of Tourism Research* 22(1), 64-73.

⁷ <https://www.thenationalnews.com/business/travel-and-tourism/formula-one-has-proved-to-be-a-big-win-for-abu-dhabi-hospitality-1.194271>

⁸ <https://www.statesman.com/article/20110626/NEWS/306269800>

⁹ <https://www.hostcity.com/news/event-bidding/benefits-hosting-formula-1>

¹⁰ <https://www.cnn.com/2008/09/24/the-dollars-and-sense-of-hosting-formula-one.html>

¹¹ <https://us.motorsport.com/f1/news/fia-track-grades-requirements-f1-potential/6508331/>



Yas Marina Circuit, Abu Dhabi, UAE

Photo: f1experiences.com

F1 and real estate

As Ben Loftsgaarden observed in his summary of the economic impact of major events, for those who calculate multiplier effects frequently, 'too little emphasis is paid to the strategic and qualitative dynamics associated with a large tourism-generating event that may provide unique benefits to a particular community'¹². Benefits to real estate markets fall under this category, reinforced by the fact that as real estate has become a dominant asset class, the impact of housing market dynamics on consumer spending—the wealth effect—has been amply studied¹³. The reverse effect, that on consumer spending on real estate, has been almost completely ignored, even though there is most likely a reciprocal exchange of value, as already demonstrated exists between foreign direct investment (FDI) in real estate and tourism¹⁴.

There are at least three potential real estate multiplier effects that matter. The most obvious one is the effect F1 races and similar events bring on hotel, serviced apartments and short-term let occupancy rates. One can point to cities such as Zandvoort in Holland, where real estate brokers specifically pointed to the benefits of F1 in attracting foreign investors¹⁵.

Others have adverted to the way in which any F1 event is a platform for local hotels and conference facilities to sell meetings, incentives, conferences and exhibitions (MICE) packages and events around the circuit for the rest of the year.

The benefit of the platform should also accelerate with longer-term deals, with a guarantee of at least a ten-year succession of races being the ultimate goal. Bahrain has been able to hold no fewer than 17 races since its first in 2004, while Abu Dhabi has staged 12 successive races since the completion of the track in 2009.

The impact on valuations

However, these are anecdotal observations, whereas what is required for valuation is direct comparison of major events. Tennis is a good source of data: among the other locations that benefit, such as Queens in New York and Melbourne, evidence from Wimbledon, London, suggests that suburbs that host such events can enjoy valuation premia and are more resilient to downturns. The tennis tournament surely contributed to prime property in Wimbledon gliding gently down from 100 in March 2014 to 97.5 in March 2019, compared to a steeper 87.5 elsewhere in London¹⁶, a noticeable performance difference in a sliding market, and certainly way beyond anything else attributable to actual rents received during the tournament.

It is interesting to note that by comparison in Abu Dhabi, although Yas Island attracts a premium compared to communities such as Masdar City and Reem Island, it does not necessarily hold a premier position in price terms to communities such as Saadiyat Island, Raha Beach or Raha Golf Gardens. Investors might however care to note that it has persistently shown higher ROI for high-end residential investors, and that price increases on Yas Island within villa and townhouse communities have been more pronounced than in other locations. Looking at a more granular level, however, and comparing, say, Mayan Residences Yas Island to an equivalent elsewhere in Abu Dhabi, a comparative price differential of approximately 10% again emerges. It might well also be that for street races, where "local landmarks can become inseparable from the on-track action", there may be even greater localised valuation impacts.

Abu Dhabi, United Arab Emirates



¹² Loftsgaarden, B. (2017) The Economic Impact of Major Events. *Economic Development Journal* 16(4), 44–50.

¹³ e.g. Mbazia, N. and Djelassi, M. (2019) Housing Prices and Money Demand: Empirical Evidence in Selected MENA Countries. *Review of Middle East Economics and Finance* 15(1), pp. 20170034.

¹⁴ Gopy-Ramdhany, N., Seetanah, B. & Bhattu-Babajee, R. (2021) Analysing the relationship between foreign real estate investment and tourism development, *Journal of Policy Research in Tourism, Leisure and Events*, pre-publication, DOI: 10.1080/19407963.2021.1879822

¹⁵ <https://mitsloan.mit.edu/sites/default/files/2021-04/Formula%20Unleashing%20the%20Greatest%20Spectacle%20on%20the%20Planet.IC.pdf>

¹⁶ <https://www.ft.com/content/6f51206c-77eb-11e9-b0ec-7d1ff87b9a4a2>



Bahrain International Circuit

Photo: thesportsrush.com

Gulf governments benefit much less directly from such impacts than elsewhere, given that in each case, value-based property taxes are not imposed except for transactions. For instance, in the US, one analysis suggested that local tax revenues should rise from \$148,350 to around \$4m¹⁷.

But one can point to the fact that F1 has brought valuation benefits to *all* of Abu Dhabi and Bahrain, and not just one district. Hospitality data suggests why: while hotels on Yas Island are able to charge anywhere from a fifth to an amazing eight times their normal rates for the F1 game weekend, much wider effects are observable. The Department of Culture and Tourism Abu Dhabi reported that Abu Dhabi hotel revenue was AED 689m in November 2018, compared to AED 483m the previous month. Revenue per available room (RevPar) rose similarly to AED 416 in November, up from AED 258 in October. By contrast in Bahrain, the main benefit for hospitality appears to have been experienced in lower vacancy rates, with some hotels reporting full occupancy around the race weekend.

The ease with which racegoers can access the track, even if they are not staying in its immediate vicinity, has been cited as a factor in the way the hospitality impact has been spread across the whole of Bahrain.

Overall, it may not be correct to ascribe much of the rise of real estate values in either Abu Dhabi or Bahrain to such major projects and events, as valuers will carefully place such a peak in the context of revenue over an entire year. But the ability of the real estate market and development to exploit the opportunities provided by F1 might explain differences in perception between Europe and the Middle East over building circuits and staging races. It would indeed be the key to explaining why, in fact, the Singapore Grand Prix has always hung by a thread while Middle East jurisdictions are keen to bid: there is no Yas Island to develop in Singapore, the overall multiplier there is therefore much lower than in the Gulf.

The impact on construction

While real estate benefits are certainly part of the expected externalities from F1, it is fair to say that even in jurisdictions where real estate construction forms a much larger proportion than the global average, which includes all three of the Middle East F1 circuits, the benefits of F1 have never been expected to be *local* real estate development. Beyond the W Hotel embedded in the Yas Island circuit and the local marina, actual development directly associated with F1 has been limited. Bahrain has even deliberately opted to separate track and real estate development, while in some cases, such as Jeddah, the whole intention has been to copy Monaco and Singapore in staging the sport's fastest street track road race, instead of constructing a purpose-built circuit. The Jeddah circuit, intended to be both fast and challenging for drivers, is nonetheless embedded into the Corniche, which is now a feature of media releases and F1 gaming alike. 'Located 12km north of the city centre, the Corniche is a narrow strip of reclaimed land alongside the Red Sea which features lagoons, open spaces and car parks. Its wide, sweeping road layout was also ripe for conversion into a unique street circuit'¹⁸. This is the first time an F1 street track has been planned and built with an eye to its real estate impact: the Corniche was already prestigious property, but it will be even more so now it has acquired an inseparable connection with spectacular racing cars that will deliver it an enhanced place in global travel schedules.

The positive effect on the immediate locality is one matter, but a more significant effect may be on construction slightly further afield than the locality of the F1 race, yet still sufficiently close to be in contention for short-stays and tourism. EY suggested that construction was the third biggest beneficiary of F1 in Melbourne, after the obvious hospitality and air transport sectors¹⁹. A good example must surely be the fact that Abu Dhabi has built an entire integrated tourism complex on Yas Island, kickstarted by the F1 track, and undoubtedly helping to place-brand Yas. Dubai Motor City is an even more explicit example. On the other hand, some of the connections between construction and F1 are harder to spot, especially if they are related to infrastructure. For example, Renault sponsor DP World is investing \$500 million in Saudi Arabia to improve and modernise the Jeddah Islamic Port over three decades.

This kind of investment is what led econometric modellers to assume that construction will benefit not just from volume increases, but also improvements in the capital augmenting technological change²⁰. Models make assumptions rather than provide answers, and exact figures in this space may be impossible, especially given that technological change in construction is now easier to diffuse than it ever was. Yet the general direction of travel seems unmistakeable—Formula One events encourage construction.

¹⁷ <https://www.statesman.com/article/20110626/NEWS/306269800>

¹⁸ <https://www.racingcircuits.info/middle-east/saudi-arabia/jeddah-street-circuit.html#YPzMM8TivU>

¹⁹ https://business.vic.gov.au/_data/assets/pdf_file/0010/1551898/The-economic-impact-of-the-2011-Formula-Grand-Prix.pdf, p 56.

²⁰ Bohlmann, H.R. and Van Heerden, J.H.(2008) Predicting the economic impact of the 2010 FIFA world cup on South Africa. *International Journal of Sport Management and Marketing* 3(4), 383–396.

The impact on brand

It is the third, more elusive effect, that on real estate branding, which may eventually prove the most spectacular. No doubt event-staging helps achieve global attention, although there is always the need to balance the excitement of events against what kind of opportunities remain at other times²¹. So, while sophisticated location data analysis offers a route for marketers to improve product offerings to tourists and residents alike during Grand Prix itself, longer-term initiatives hold the key to leveraging F1 branding for real estate.

It must be conceded that early attempts to link F1 branding with real estate development, such as the proposed Michael Schumacher Tower, were unfortunately not well thought through. Dependence on a single individual is always risky, as the tragic accident that befell Schumacher demonstrated all too well. More general approaches, such as Ferrari World in Abu Dhabi and the Porsche Design Tower and Aston Martin Residences in downtown Miami, are quite possibly a better approach to exploiting the brand effect of F1 for real estate. It is not just a question of luring Tesla into a real

estate joint venture in the Middle East, desirable as that may be. For example, attracting F1 drivers to purchase homes in the city is an obvious route to brand promotion, as Monaco²² and Miami have already demonstrated²³. Little wonder that the attractiveness of these destinations is something that Bahrain, Abu Dhabi²⁴ and soon Jeddah are keen to emulate²⁵.

We know that, carefully managed, exclusive brands can add double-digit percentages to property valuations, but this benefit for the Middle East lies largely in the future. They might consider the long-term and cast an eye on drivers in other Formulas, too, such as Formula E and the Dakar Rally, both of which Saudi Arabia has already hosted, the annual Gulf 12 Hours race for sportscars and the Australian Supercars Championship, which have been staged at Yas. The mystique of F1 may be to some extent cyclical, even for sponsors as well-heeled as recent addition Aramco, with its commercial face certain to change over the coming decade, albeit perhaps somewhat less than predicted in 2020²⁶.



Jeddah Street Circuit, KSA

Photos: tillke.de

²¹ Mishra, A. (2019) *Places in the Making - Abu Dhabi's Evolving Public Realm in the Context of Place-Branding*. ETZ-Zurich Research Paper. Gulf Research Meeting 2016, Cambridge, UK, August 15-19, 2016, 126-144.

²² <https://smartasset.com/insights/the-economics-of-the-formula-one-grand-prix-of-monaco>

²³ <https://therealdeal.com/miami/2021/04/30/south-florida-by-the-numbers-formula-one-revs-up-miami-real-estate/>

²⁴ <https://www.thenationalnews.com/business/travel-and-tourism/formula-one-has-proved-to-be-a-big-win-for-abu-dhabi-hospitality-1.194271>

²⁵ <https://www.arabianbusiness.com/sport/467666-saudi-f1-race-to-offer-something-the-world-has-never-seen-before-says-circuit-designer>

²⁶ <https://www.racefans.net/2020/05/20/why-the-pandemics-economic-impact-on-f1-goes-far-beyond-a-disrupted-calendar/>



Conclusion

The existence of multiple effects from F1 on real estate make calculating its overall impact problematic. Critics have suggested that multipliers have been exaggerated, even though with the rise of experience tourism combined with the ever-increasing importance on brands in decision-making, the impact of F1 is set to rise even higher in the future. What is invariably left out in this kind of downbeat analysis²⁷ is the indirect effect on real estate markets, especially where development is central to local and national economic growth, and the national brand is inextricably entwined with real estate valuations. Countries in the Middle East that have taken the wider view and made the decision to host F1 races are therefore very unlikely to regret the effort and expenditure involved, with real estate developers and owners at the front of the queue to offer them thanks for the benefits that F1 will deliver in the future.

²⁷ e.g. Storm, R.K., Jacobsen, T.G and Nielsen, C.G. (2020) The Impact of Formula One on Regional Economies in Europe. *Regional Studies* 54(6), 827-837.



Dubai

2205 Marina Plaza, Dubai Marina,
P.O. Box 118624, Dubai, United Arab Emirates
+971 4 453 9525

Abu Dhabi

605 West Tower, Abu Dhabi Mall, Tourist Club Area,
P.O. Box 126609, Abu Dhabi, United Arab Emirates
+971 2 448 4677

Sharjah

1801 Sarh Al Emarat Tower, Buhaira Corniche Street,
P.O. Box 38583, Sharjah, United Arab Emirates
+971 6 715 0444

Manama

Office 920, West Tower, Bahrain World Trade Centre,
P.O. Box 1829, Manama, Kingdom of Bahrain
+973 1616 1448

Muscat

Villa 836, Way 3012, Al Sarooj,
P.O. Box 3438, Muscat Sultanate of Oman
+968 2 469 4150

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