Cavendish Maxwell

OPINION

Value through infrastructure development

The case of Gulf ports

The rise of Gulf ports

The history of seafaring throughout the Gulf is well known. The construction of the famous Arab dhow and the existence of extensive fisheries across the region in what are now the countries of the UAE, Oman and Saudi Arabia are part of a proud tradition that urban planners wish to capture.

More recently, Gulf governments at national, provincial and city level have sought to exploit the USPs of their extensive coastlines. Where to site major ports has become a question of national importance but, for the most part, their location has simply been a function of the evolution of national history. For example, the Abu Dhabi Ports and Khalifa Port in Abu Dhabi, Jebel Ali Port, Port Saeed and Rashid Port in Dubai, and Fujairah Port have remained the most important ports in the UAE since its inception. As the main port, Jebel Ali now handles over 14 million TEU (twenty-foot equivalent units) annually,[1] compared with 6 million two decades ago and just 1 million in 1991. Urban planners note that it was the principal driver for the transversal East–West development that characterises Dubai's modern city pattern as a linear city.[2]

Saudi Arabia is equally well served by several major ports – Jeddah, by far the largest, Jazan and Yanbu on the Red Sea coast and, on the Gulf, Dammam, originally established for the benefit of the oil industry, and Jubail.

Oman's major ports, Salalah, Sultan Qaboos, Sohar, Shinas, Suwaiq, Qalhat and Khasab, likewise owe their existence to history. New ports such as King Abdullah or Duqm, therefore, have been a relative rarity this century.

Rapid development of ports has proceeded nonetheless throughout the Gulf. In the UAE, the ports of Abu Dhabi, Dubai, and Fujairah have expanded seaward, mainly through the creation of artificial land. Sustainability has not been forgotten, emerging for example as a key performance metric at Khalifa Port in Abu Dhabi.[3] International comparisons strongly indicate the rising relative importance of Gulf ports, derived both from the growth in domestic markets and their role in transshipment between Europe and Asia.[4]

Ports of this size and complexity are massive and expensive infrastructure items. What is known about their impact on real estate markets?

Value added in port development: the missing piece

The principle of value added in transit-oriented development (TOD) and residential development is well established. Landowners and government alike know well the benefits of infrastructure development for local valuations. From an equity standpoint, there is therefore widespread recognition of the legitimacy of some redistribution via the imposition of infrastructure contributions. In jurisdictions such as Australia and the UK, the process has reached a high level of uniformity based on legislation, such as S.106 in the UK.[5] By contrast, in the Gulf, the process has been deliberately managed in the opposite direction, with well-funded governments choosing deliberately to encourage real estate development and value creation through major infrastructure projects such as the Dubai Metro, the Saudi rail network and Doha Airport.

Ports, however, have never usually been assigned to the same category as roads, rail or airports in Western jurisdictions, where seaport clusters have yielded place to other drivers as catalysts for the creation of economic wealth. Remarkably perhaps, they have not even been examined in detail for their economic benefits.[6] Instead, ports have been provided with their own internationally recognised success and efficiency metrics.

These metrics include, for example, the value add of services provided and the role of the port as a regional gateway, as well as – from a mainly logistics standpoint – the impact of the port on supply chains.[7,8] This results in an emphasis on potential hindrances to supply chain efficiency, such as congestion at ports and roads, obstacles to the swift transfer of goods and the impact of climate change on port operations.

The reasoning appears to have been that the heavy infrastructure inevitable at ports is intended primarily for industrial purposes. It has been deemed unaesthetic, potentially noisy, and the cause of both rail and undesirable road traffic. A decade ago, the OECD noted that agglomeration effects and high job density were generally considered to be factors in urban economic growth, both potentially constrained by the 'crowding out effect' of large port areas.[9] Taken together, these arguments form a disincentive for the local residential development that is the mainstay of value added. In fact, port expansion into principally residential areas has often generated strenuous local 'headwinds', largely revolving around environmental concerns, as in the case of Antwerp.[10]

> *“In Oman, we spearheaded a strategic project in Al Rawdah aimed at establishing a Special Economic Zone (SEZ) to bolster trade between the UAE and Oman. As part of this initiative, we explored tapping into international markets through the development of a Dry Port. Although the initial investment required for setting up a port is substantial, the economic benefits it yields for the host city are equally significant and multifaceted.”*
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> **Siraj Ahmed**
> *Partner, Head of Strategy and Consulting*

Three reasons to support a counter-narrative

The reasoning above may however be flawed for three reasons. **Firstly,** it is already clear that marinas are analysed in a completely different way, akin to residential developments with additional complexities of cost and value.[11] Yet some ports, such as Muscat, are dominated by passenger traffic, providing in 2023 a gateway for almost 600,000 visitors to the interior of the country. Even primarily industrial ports may include passenger terminals, Yanbu being a good example. Resultant opportunities for retail, office, warehousing and even residential development have characterised the expansion of such ports for decades. This trend is likely to continue globally.

Secondly, assumptions regarding the supposed unaesthetic vista of a port should be questioned. In practice, residential developments can and do coexist in very close proximity to modern industrial port facilities without any loss of value. The explanation must be that a certain degree of brutalist industrial architecture may, if properly managed, especially with the provision of intervening service land and designated green space, do no harm to residential value. Indeed, quite the contrary.

In the most obvious cases, industrial legacies have been successfully turned into hugely profitable real estate developments, as in the case of the Titanic Quarter in Belfast.[12] But there are other examples of high value in close proximity to modern operating ports. Fremantle in Western Australia is a stark example: cranes and luxury apartments live peaceably side by side, notwithstanding longstanding plans to eventually relocate the industrial port,[13] as has happened elsewhere where waterfront land is scarce, for example in China.[14] As for valuation, available evidence supports a relatively linear correlation between proximity to a port and value. In Brisbane, for example, one study found that for every kilometer closer a location is to a ferry terminal, there was an expected 4% average price increase.[15] The formerly dominant 'Anyport' argument of last century – that, economically and geographically, ports and cities have grown apart[16] – has therefore already been demonstrated to rest on largely European foundations and has therefore been subject to substantial revision, no more so than in the context of the Middle East.

Thirdly, and arguably most importantly, even primarily industrial ports still generate significant employment and wealth. This is at least partly due to the fact that previously anticipated automated ports have been slow to emerge. In Oman, for example, more than 2,200 people work at Salalah, 2,000 at the Sohar Industrial Authority, and 1,500 at Sultan Qaboos. In Dubai, strikingly, the Jebel Ali Port and its adjacent free trade zone, JAFZA, have been estimated to provide a fifth of the jobs in the Emirate.[17]

The authors of the leading text on port economics note that – at an estimated 0.05 jobs per 100 tonnes – size clearly matters. But, even so, it is still very much possible to deploy the direct, indirect and induced multiplier logic of investment familiar to urban planners in the service of the analysis of port development.[18] Aside from the incomes generated during construction itself, long-term port employees value the short commuting times that living locally provides. Whole districts have grown up surrounding major ports, as in the case of Ningbo in China,[19] supported by the well-known proclivity of value to migrate towards the coast. One thinks of obvious historical examples such as Marseille or Shanghai, but there is every reason to believe that this trend too will continue and accelerate in the future.

In one well-known expert ranking of global maritime cities, Dubai now stands in 4th position, propelled by the familiar collection of advantages, namely: strategic geographic location, advanced port and logistics infrastructure, free trade zones, rich trading history, cosmopolitan characteristics, pro-business environment, and consistently strong government support.[20]

> *There has been a significant uplift in interest from Dubai developers who are considering opportunities within close proximity to the Jebel Ali Port, particularly with the reactivation of Palm Jebel Ali and the future plans for the Waterfront. This initial activity is skewed more towards waterfront living at the luxury end of the market, but there has also been interest in plot acquisition and project planning for the neighbouring Dubai South master community. Dubai South brings with it additional proximity-based benefits of the DWC airport and expansion of the metro line, and it caters to a much wider target market and price points. As this master community evolves, we anticipate seeing notable price premiums based on the proximity to these major economic and industry hubs – including the port of Jebel Ali.*
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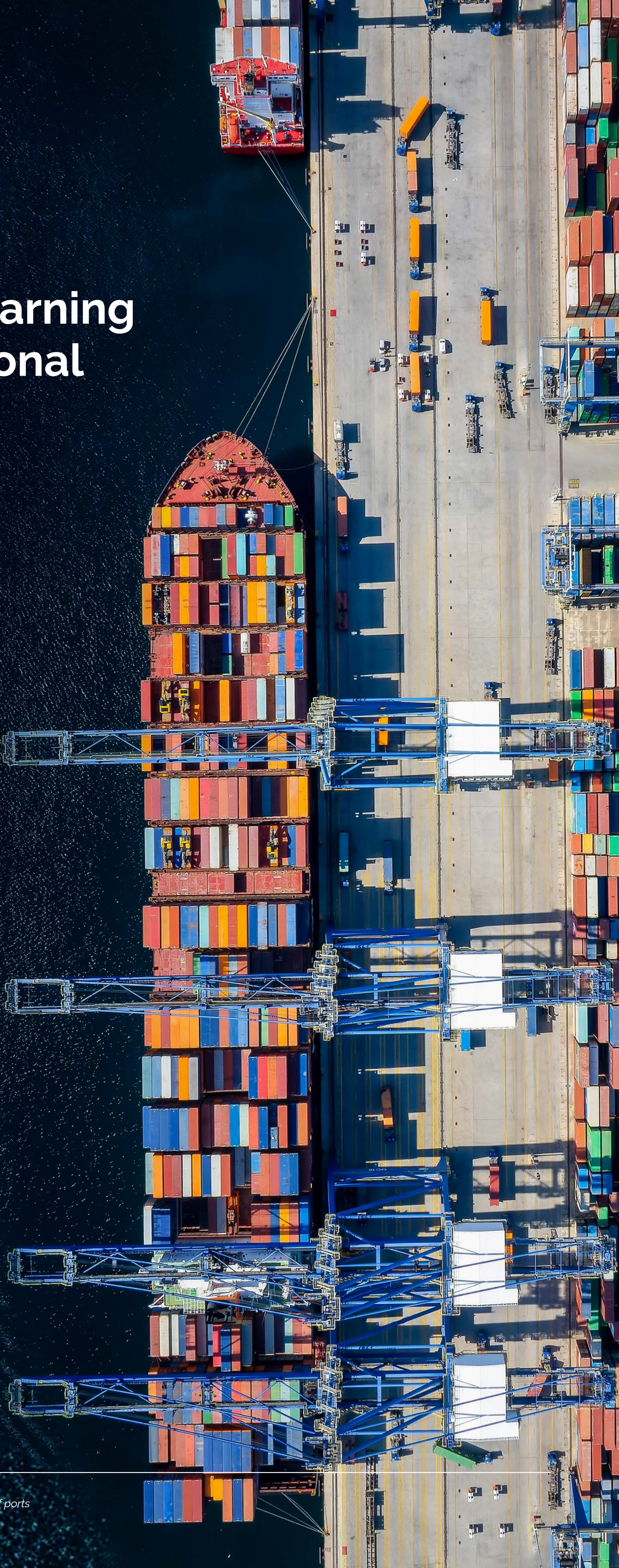
> **Zhann Jochinke**
> *Director of Market Intelligence & Research*

Conclusion: learning from international experience

The port development decisions that Gulf governments at all levels take now will create both opportunities and constraints for entire generations of often rapidly growing populations. The Gulf is well positioned to take advantage of the growing international recognition of the extent of value added that ports can generate. Achievement in this respect will certainly not come automatically. International experience suggests that port planning is a task that needs regular revisiting, as for example occurs in the five-year Taiwanese port planning cycle.[21]

Failures at this level, as in the case of Liaoning in China, can develop a dynamic of their own and are extremely costly to reverse.[22] Cavendish Maxwell's own experience in advising governments in port development leads us to conclude, unhesitatingly, as follows. To take the right decisions about zoning, government investment in infrastructure and community facilities, and related issues such as Free Zone status, only the combination of sophisticated economic cluster analysis and modelling, GIS techniques and detailed stakeholder consultation can result in the right framework. Utilising appropriate techniques, Gulf governments can unlock the enormous potential of coastlines and the ports that they support.



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