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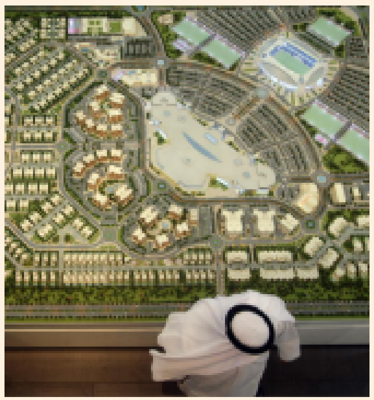
Aldar bailout: day 2

December 29, 2011 4:00 pm by Simeon Kerr



Aldar, Abu Dhabi's biggest developer, saw it shares jump 9.5 per cent on Thursday on the back of a massive government bailout package unveiled the day before. And Abu Dhabi's real estate index took confidence too, bouncing some 7.5 per cent .

On Wednesday, Aldar announced it is selling assets to the government and receiving debt support to the tune of $4.6bn, after receiving a rescue package of $5.2bn in January. That brings the total amount of government aid in Aldar's 2011 begging bowl to near $10bn. No wonder shareholders are so happy.

That figure is in line with the financial injection that neighbouring Dubai had to pump into the listing ship Nakheel in late 2009 as the business hub, the second

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largest emirate after oil rich Abu Dhabi, almost teetered over into default.

Of course, it was only the generosity of Abu Dhabi, the capital of the UAE, that allowed Dubai to pull back from the cliff's edge, thanks to a $10bn bailout loan.

The UAE had earlier in 2009 loaned another $10bn to Dubai as the size of its $110bn debt problem came into clearer view.

Since then, Abu Dhabi has had to look more closely at its domestic affairs, rather than acting as a lender of last resort for the federation.

Aldar was at the forefront of the capital's grandiose development push, which gathered steam once the much-loved, conservative founding father of the UAE, Sheikh Zayed, died in 2005.

From apartments to villas, malls to the capital's landmark Formula 1 racetrack, Aldar – alongside its part-owner, investment arm Mubadala, were building a new vision for the emirate, long used to being overshadowed by its brasher younger brother in Dubai.

This new vision was supposed to develop Abu Dhabi along different lines from glitzy Dubai.

With museums and Formula 1, the capital was supposed to provide a classier glamour than Dubai.

But Abu Dhabi's development drive, while underpinned by the emirate's vast oil reserves, started later than Dubai's, leaving the capital behind in the development cycle once the credit crunch hit.

And investments in renewable energy and technology manufacturing have been costly, raising question marks about potential waste.

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While Dubai's real estate crash came quickly, Abu Dhabi's 50 per cent fall in property values has been a more gradual slide.

But a crash it remains.

Underlining the perilous state of the real estate sector, Mubadala finally offloaded its property services arm, JBI, to the UK's Serco in a deal announced Thursday.

To get the books back into shape, national security advisor Sheikh Hazza bin Zayed Al Nahyan has been mandated to carry out a spending review aiming to trim costs and, it seems, to reassess the future direction of development.

Legions of expatriate staff on bumper salaries are being made redundant and, where possible, replaced by Emiratis.

As the unrest of the Arab revolutions rumbles on, Abu Dhabi is, rightly, fretting about the security implications of an underemployed youth population.

As academic Nasser bin Ghaith, who was sentenced to two years by a UAE security court this year for insulting the leadership before being pardoned, argued in a 2010 article: the Abu Dhabi economic model has not worked, given unemployment levels among nationals in the capital of around 13.7 per cent.

But amid the spending review, liquidity has drained from the system.

Bankers are daily pondering the great known unknown: where are all the oil revenues going?

The bailing out of Aldar will no doubt go along way to assure markets that the government of Abu Dhabi will stand behind its troubled real estate sector.

Next door in Dubai, the rebounding tourism and commercial sectors have lifted economic optimism, despite a wall of debt repayments set to mature in 2012.

beyondbrics team

Business in Abu Dhabi – always more dependent on trickle-down from the public sector than more commercially-oriented Dubai – will hope that the effective bailout of Aldar provides a clear signal of intent to stimulate the economy too.

High oil revenues will certainly give the capital some room to stoke demand. But we will have to wait for the result of Sheikh Hazza's review to get some clarity on what direction Abu Dhabi will take as plans for a post-oil future.

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Shanghai Comp China As of Dec 29 2011 07:00 GMT.	2,173.56	+3.55 +0.16%	-9.90%
S&P CNX Nifty India As of Dec 29 2011 10:01 GMT.	4,646.25	-59.55 -1.27%	-3.31%
RTS Russia As of Dec 29 2011 18:29 GMT.	1,366.67	+1.54 +0.11%	-6.80%

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