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Airlines help UAE growth stay aloft

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In Silicon Oasis in Dubai, tucked away behind streets peppered with unfinished buildings and empty office blocks, is a thriving, upscale community of villas.



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Tree-lined paths, manicured hedges and lawns adorn the gated enclave. The plush residences, where Emirates Airline houses many of its pilots, is a symbol of prosperity.

The villas of Silicon Oasis are a wellspring in a part of Dubai surrounded by the dusty expanses of desert behind hoardings, where many of the elements of Dubailand, a sprawling theme park and entertainment project, remain unbuilt.

As highly-leveraged companies restructure and the property market continues to face challenges, billions of dollars of investment is being ploughed into the UAE's burgeoning aviation industry, which could ultimately help the country fly well above a global financial crisis.

"The aviation sector is a welcome support to the non-oil economy's long-term prospects," says Farouk Soussa, the chief economist at Citi in the Middle East.

Despite a global backdrop of economic uncertainty, Emirates Airline last week announced an \$18 billion (Dh66.11bn)

order for 50 Boeing 777 aircraft, the second-biggest civil order in the US plane maker's history. Meanwhile, Etihad Airways is also on track to break even at the end of this year, the Abu Dhabi carrier says, after reporting revenue growth of 39 per cent in the third quarter to \$1.1bn.

"The twin engines of the UAE's tourism industry, Emirates and Etihad [Airways], will help ensure growth in the short and long term," says Omer Kaddouri, the executive vice president and chief operating officer of Rotana Hotels.

Airlines in the UAE are adding more and more routes to destinations globally, with Emirates continuing to build its presence in Africa and targeting South America, while Etihad plans to launch flights to Chengdu and Shanghai in the next few months. Budget carriers flydubai and Air Arabia are also rapidly growing their networks. Dubai and Abu Dhabi are pushing ahead with multibillion-dollar expansion plans for their airports, as they strive to build the facilities to keep up with the growth in the numbers of passengers flocking through the hubs. Dubai is certain that its airport can secure the position of becoming the world's busiest hub by 2015, ahead of Hong Kong, London and Paris.

"Connecting into Dubai is so much easier than into Heathrow," says Paul Sheridan, the head of risk advisory at Ascend Worldwide. "It offers such a extensive network and with the massive increase in aircraft in the region that trend will only continue."

By contrast, other industries are not faring nearly so well. The property market is still struggling, with some projects delayed or cancelled across the country.

About 50 per cent has been wiped off property values in some parts of Dubai since the peak of the market in 2008. In Abu Dhabi, average rents are down more than 40 per cent from their highs.

While some area have shown signs of stabilising in recent months, analysts expect the price declines to continue as other projects are completed.

But, although the UAE was forced to reduce prices to lure visitors during the downturn, the numbers of tourists coming into the country have reached record levels in the past couple of years.

"I think that Emirates Airline has demonstrated in Dubai how tourism can continue to thrive even in difficult circumstances economically as long as you have airlift," says Gerald Lawless, the executive chairman of Jumeirah Group, which manages luxury hotels including the Burj Al Arab.

"The main reason for this success has been very much the fact that we have such an active and expansionary airline industry within the United Arab Emirates," says Mr Lawless.

"As the airlines open up new destinations, we get new visitors from these destinations. It's really encouraging to see now that Emirates is going to open up to Buenos Aires and Rio de Janeiro."

The weakness in the global economy is likely to have little impact on the UAE as a travel hub, some analysts say.

"Global travel [coming through the UAE]: will it be impacted hugely? Not to a significant degree," says Christian Dinwoodie, the managing director of corporate ratings at S&P. But Mr Soussa warns the travel and aviation sector in the UAE could face headwinds in the short term if there is a global slowdown.

"I see it as a structural improvement in the country's non-oil industrial base, whether or not it can shield from cyclical uncertainties in the near term."

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