Transcript

Aldar Properties 9M 2023 Financial Results

Monday, 30 October 2023

Faisal Falaknaz Good afternoon. Thank you all for joining the call today for Aldar's financial results for the first nine months of 2023. I will start with a short summary of our financial and operational performance, accompanied by slides, which you can see via the webcast. If you are joining through the conference call, you can access the full presentation on the IR section of our website. I would like to begin with the key highlights for the first nine months of the year on slide number three. Aldar delivered an excellent set of results on the back of exceptional sales performance, continued execution of our revenue backlog, and meaningful contributions from our recurring income portfolio. In the nine-month period, we achieved revenue growth of 21% year-on-year to AED 9.8 billion, with EBITDA rising 37% to AED 3.5 million. Net profit increased 41% to AED 3 billion.

On the development front, we witnessed record sales and revenue backlog, and as a result, we are revising our guidance upwards for fiscal year 2023, which I will come to at the end of this presentation. Particularly notable is the growing and strong demand from overseas and expat buyers, a trend that highlights Abu Dhabi and Aldar's continued global appeal, which we expect to grow further, as we launch our first developments in Dubai and the Ras Al Khaimah. As for Aldar Investment, contributions from recent acquisitions and strong operational performance have driven cross portfolio growth. The ongoing execution of our transformational growth strategy, backed by a disciplined approach to capital deployment, as G&A spending and geographic expansion continues to positively impact the bottom line.

Moving on to slide number four for more detail on Aldar Development. We are now operating at an elevated and sustainable scale, with quarterly sales trending upwards since early 2022, recording AED 19.4 billion in Group development sales, and a development revenue backlog of AED 29.1 billion year-to-date. Overseas and resident expat buyers collectively accounted for 60% of UAE development sales, a significant contribution to our total year-to-date UAE sales of AED 17 billion, and growing UAE development revenue backlog of AED 23.6 billion. Most notably, UAE sales to overseas buyers during the first nine months reached AED 4.6 billion, representing an increase of 160% on sales to the same segment in 2022, reflecting Abu Dhabi's position as a premier investment and lifestyle destination.

In Egypt, we saw healthy demand for SODIC's recent launches, which witnessed price appreciation in both US dollars and Egyptian pound terms. In Egyptian pound terms, SODIC sales are up 67% year-on-year, driven by strong demand for projects across SODIC's main markets. We maintained our long-term commitment to growing our platform in Egypt, and SODIC continues to pursue growth, expanding its land bank, with the addition of two new plots, and entering into new partnership with Nobu to bring the international brand to two of its projects. Overall, the Aldar Development platform continues to go from strength to strength, and will continue to drive earnings growth, as we deliver on our plans for enhancing scale and geographical diversification.

Turning to the Aldar Investment platform on slide five. The business is producing strong performance across the diversified portfolio, driven by increasing rental rates and high occupancy. Moreover, the strategic acquisitions made in 2022 have stabilised and proven to be highly successful, surpassing our initial underwriting expectations and significantly contributing to the bottom line. Adjusted EBITDA for Aldar Investment for the first nine months was up 39% year-on-year to AED 1.6 billion. I'd like to take a moment to focus on our commercial portfolio, which is performing exceptionally well, driven by robust demand for prime grade A space from GREs and international corporates. We have reached near full occupancy on the ADGM office towers, and are seeing strong preleasing activity for Al Maryah Tower, with 40% of space booked ahead of our scheduled opening in Q1 2024.

Beyond Al Maryah Island, we have also witnessed strong leasing activity in HQ and International Tower. Meanwhile, the retail portfolio continues to benefit from robust consumer confidence, which has supported high occupancy and solid leasing activity. Tenant sales and footfall in our flagship Yas Mall, were up 26% and 33% respectively from a year earlier, while occupancy has reached 99%. The hospitality business continues to recover well from the pandemic slowdown, with occupancy increasing, an average daily rate up 46% year-on-year. Aldar Education reported a 17% increase in the number of enrolled students, driven by a soaring portfolio of managed schools, and complimented by the acquisition during the year. Lastly, on principal investments, which houses our Aldar Estates business, adjusted EBITDA for the first nine months doubled to AED 124 million, supported by contributions from the Basatin acquisition, as well as the strategic merger with Eltizam.

Turning to slide six. So far this year, we have made a number of significant announcements. I will give you a quick update on those announced since our last call. On the development side, we entered into a partnership with Nikki Beach that will see three branded residential buildings built on Al Marjan Island, in close proximity to the Rixos and DoubleTree Hilton Hotels that we acquired in 2022. Following our previously announced JV with Dubai Holding, we are excited to launch our first residential development in Dubai, which will be branded Haven, and offers 2,428 residential units, available to buyers of all nationalities. Construction of the first phase is due to begin in 2024, with handovers expected towards the end of 2027. We also announced the acquisition of FAB Properties, further expanding our Aldar Estates platform, following our strategic merger with Eltizam and other recent acquisitions.

Turning to slide seven, we remain in a strong financial position with AED 3.9 billion of free cash and AED 5.9 billion of committed undrawn facilities. Furthermore, during the first nine months, we signed AED 1 billion in new bank facilities, and issued a $500 million inaugural green sukuk in May. Our robust balance sheet and liquidity places Aldar in a strong position to continue pursuing our growth agenda, and expansion strategy over the coming period. Turning now to slide number eight, I would like to spend a few minutes discussing progress to date on our growth and expansion strategy, and our plans moving forward.

Over the last two years, we have established a strong track record of executing against our transformational growth agenda to enhance scale and asset diversification. On development, we have grown our sales to resident expats, and generated sizeable streams of overseas buyers through the development of our international brokerage network. On the investment front, we have expanded our commercial portfolio, specifically in grade A assets through the landmark acquisition of the four office towers in ADGM. We have also taken additional steps to diversify our sector exposure through our investment into logistics, which we identified as a target growth segment. And finally, as it relates to geographic expansion, we have entered into new markets across the UAE, in Egypt, and the wider Gulf region. These have been significant milestones on a large journey to become a leading regional real estate developer, operator, and asset manager.

Moving on to slide number nine. As you can see, we have established an operating model designed to deliver sustainable growth. Going forward, we will continue to build scale across these platforms, focusing on enhancing sector and geographical diversification. This will include investing in new growth sectors, and achieving synergies across the businesses and markets. Turning to slide ten. We will continue to take a disciplined approach to capital deployment, which has brought us success in recent years. We seek to ensure the business adapts to and takes advantage of emerging trends, such as e-commerce, supply chain resilience, digitised economies, ageing populations, and winning cities. For example, we are exploring opportunities and segments, such as student accommodation, retirement living, warehousing, self-storage, data centres, and last mile logistics.

Moving on to slide 11. To pursue these opportunities, we are starting to look beyond the UAE and this region into international markets, with a focus on Europe. The idea is to export our franchise and expertise, adding resilience and additional revenue streams to our platform. We also bring new offerings back to the UAE market. Our expansion plans are currently in progress, with the relevant and necessary market research and feasibility studies underway to gauge potential, organic and inorganic markets in three avenues. Moving on slide number 12. Our preferred geographic expansion approach is to enter new markets through partnerships by establishing joint ventures with reputable and established entities similar to our Dubai holding JV, or through active long term strategic investments, by taking a controlling stake in strong operating platforms with an existing track record, as we did with SODIC in Egypt.

This approach allows us to enter these markets in a de-risked, phased, and considered manner, by working with like-minded partners. would now like to give you a quick update on our progress on sustainability since our last call. If you can turn to slide number 13. Our continued progress on sustainability has driven improvements in our ESG ratings during the year, including both the MSCI Index and Sustainalytics Index. Aldar was ranked 11th among the 104 diversified real estate firms by Sustainalytics, and in the top 7% of 237 real estate companies surveyed by Dow Jones.

On slide number 14, we look towards the rest of the year. Given our strong performance this year, particularly in development, we are revising part of our guidance, and we are now expecting 2023 Group sales to reach between AED 22 billion to AED 24 billion. Accordingly, we're also revising guidance for group revenue backlog to a range of AED 31 billion to AED 33 billion. Meanwhile, the rest of our guidance remains unchanged.

In summary, we continue to demonstrate operational and financial strength, while achieving accelerated growth both organically and through strategic acquisitions. While we remain cognisant of the uncertain global macroeconomic and geopolitical environment, the company is well placed to benefit from the UAE strong economic fundamentals. That concludes the summary of our year-to-date 23 performance, and I'll now hand it over to the operator to open the floor for questions.

Operator Of course, thank you. If you'd like to ask your question by the telephone lines, you can do so by pressing star, followed by one, on your telephone keypad. If you choose to withdraw your question, please press star, followed by two. When preparing to ask your question, please ensure your phone is unmuted locally. Alternatively, if you've joined via the web, you may submit a question in writing via the Q&A chat box. Our first question comes from Nida Iqbal of Morgan Stanley. Nida, your line is open, please go ahead.

Nida Iqbal Thank you for the call, and congratulations on the good set of results. I have a few questions. Firstly, on the strategy side. Thank you for the colour in the presentation on the new international strategy. Can you maybe give us some indication in terms of the capital deployment and timing around that, in terms of expansion into Europe that you're thinking about? Secondly, on the development side of things. Year-to-date growth has been very impressive, in terms of backlog and sales. Have you seen any signs of a change in demand more recently, over the last few weeks? How do you see the outlook for the coming quarters? And what do you think are the key risks to the very strong momentum that we've been seeing in property prices in the UAE? And then finally, just on the same topic, overseas demand, of course is very strong. Can we get some colour on the nationalities that are driving this, and if you're any seeing any changes here? Thank you very much.

Faisal Falaknaz On the strategy. So, as you know, we don't give guidance on timing, given the disciplined approach we put in terms of putting out capital. We will only transact on things, if those deals are going to create value to our shareholders. But we are advancing quite well. We have a decent pipeline of opportunities that we are looking at. The way I would look at it is, every year, we announce guidance, in terms of what will our deployment quantum be. For example, for this year, the guidance was AED 5 billion, which translates to AED 7 billion to AED 8 billion of purchasing power. The UAE market will always be our focus, in terms of deployment. The international strategy will be ancillary to that. And then going forward, as our development backlog continues to churn profits out, we will recycle those profits, as we always do, and put it back into the recurring income business. But again, our focus will continue being the UAE with an ancillary focus on other regions internationally.

Moving on to the second question, which is on the signs of demand. We haven't seen any weakening as of yet. Actually, as we speak, we have launched our Dubai project today, our first. This is as part of the JV with Dubai Holding, which is the Haven or Jinan Project, which covers 2,400 units almost. We are seeing very, very strong demand, both from Dubai from Abu Dhabi. Our call centres have actually broken down after we got a lot of calls from our brokers, so we expect this launch to be extremely successful. And we expect to get more international and more residential demand. That's a trend I've been highlighting over the past few quarters. Now as we enter into Dubai and go into Ras Al Khaimah, you're seeing that demographic shifting in that area. And one great thing that the team has been doing is growing our international brokerage network, so that we can continue sustaining this momentum of sales.

In terms of risks going forward, I don't have a crystal ball, I don't think anyone does. Nobody knows what could go wrong, but I'll tell you what makes me sleep at night, the fact that the UAE has implemented very strong structural reforms, which will carry forward. The population is no longer transitory. The performance of our recurring income portfolio, for example, is evidence of the benefit of those reforms, and the resulting strong macroeconomic backdrop. The other thing is we are pushing our payment plans. So, for example, our launch in Dubai is starting at 60 – 40. A few years back, we were somewhere between 30% during construction, 70% at handover. We have completely flipped this. We can go up to 70%, 80% during construction, and what this means is we get to collect a lot more buyer equity, before we actually award the project, which means this reduces our probability of default risk.

If you look at our balance sheet, we continue to maintain a very disciplined debt policy. 35% LTV on the investment side. Lower than 10% on the development side. On the overall company, you're talking about 28% LTV, extremely conservative. We have about six billion of untapped facilities that we can get into. We have a very defensive recurring income portfolio that has been tested during COVID. And so, for those reasons, we are very confident that if there is any downturn, we can easily weather it out.

Nida Iqbal Thank you very much. That’s very clear.

Operator Thank you. Our next question comes from Harsh Mehta of Goldman Sachs. Harsh, your line is open, please proceed.

Harsh Mehta Faisal and team, thank you very much. Just a few questions from my side. The first is in the press release, there's a comment, by the Chairman, that you're looking for potential international expansion with focus on Europe. So, I just wanted to understand what kind of investments are there on the development side, or on the investment property side? And in terms of size and quantum, and which markets within Europe, specifically, are you looking at? And then the second question is on the Group presales. They have been extremely strong, reaching 19.5 billion in the first nine months. When we compare this, even with the upgraded guidance, it basically implies between 2.5 billion to 4.5 billion for the fourth quarter. And this looks very low, compared to what you've done in the past two quarters, and compared to 5 billion in the fourth quarter. And seasonally, the fourth quarter is the strongest. You've also launched, in Dubai. Lagoons, is doing very well, as we see from the third quarter performance, in terms of sales, and there's still a lot over there to sell. How should we think about this upgraded guidance, given it looks extremely low, when we compare it with the trends, quarter-over-quarter and even year-on-year? And then the last one is in terms of the new launches, in the third quarter, there was just one new launch, compared to ten launches in the first half, itself. So, was it just because of seasonality, or there was an intention to clear off inventory, then look at the market and then restart the launches? That’s it. Thank you very much.

Faisal Falaknaz Okay. Just elaborating on our international strategy. I'll start with the strategy is very much aligned with our strategic growth plan programme that we announced about three years ago, which was focused on geographic and sector diversification. So, this is us going into the second phase of that strategy. The other reason for going out internationally is we've been very keen to grow our alternative real estate assets exposure, and the markets there, in Europe, have a lot of depth and breadth. So, it gives us the opportunity to be able to achieve that scale in a faster manner. The sectors we'd be looking at would be logistics, self-storage, student accommodation, senior living, even credit in line with where interest rates are at today, real estate credit. And then lastly, that also covers a development component, to your point. So, we'd be looking at residential development opportunities, but those that would align with our sales strategy here and have synergies with the customers that we sell to.

So, we want to have an international sales network, where we can offer property in Dubai, in Abu Dhabi, in Ras Al Khaimah, in Egypt, and in the new markets that we are looking at. And I'd just like to highlight that the approach is going to follow a very similar approach to what we did previously in Egypt, where we took control of a platform, and in Dubai, where we went into the market with a very well-known partner on the ground, which is Dubai Holding. So, same thing, we’ll either get a majority control of the platform and grow from there, or depending on the sector, we will partner with JV partners, to enter into those asset classes. In terms of our development sales, if you take the higher end of that guidance, you're looking at about five billion additional sales. I think we just want to take a very cautious approach to how the markets play out. We don't want to get ahead of ourselves internally.

Obviously, we're setting more aggressive targets for ourselves. And lastly on the launches, I would say part of it is driven by seasonality. Summer is probably not the busiest of seasons, when it comes to sales, even though we had one of the strongest quarters. And the last thing was us just getting ready for those launches. Q4 is going to have the launches of Dubai, which is happening today and tomorrow, and then Ras Al Khaimah will follow very quickly, with a number of new launches happening in Abu Dhabi before the end of the year.

Harsh Mehta Thank you very much.

Operator Thank you. Our next question comes from Taher Safieddine of JP Morgan. Taher, your line is open, please go ahead.

Taher Saffieddine Good afternoon. Thank you, Faisal, and again, congrats on a solid set of numbers. Two questions from my side. The first one on the development side. With this revenue backlog, and the average duration of 29 months, is it fair to assume that we could see revenue recognition scaling up towards nine billion plus into next year, if I just do a rough maths? So, there could be a strong growth in the development sale portfolio, in terms of revenue recognition? And I think the other question within that is, how should we think about the EBITDA margins? With your entry into Dubai, RAK, is it a different margin profile? Is the 34% EBITDA margin sustainable, in your view, for the property development sale segment in the UAE? I think that's the first part of the question.

Now, the second question is really on the recurring portfolio. This equity deployment of five billion has been there since the beginning of the year, yet, we still haven't seen any significant deployment year-to-date. I just want to get your view, should we expect something to happen in Q4 on this equity deployment? And does this target include the recent talks about entry into Europe, or are we still talking about UAE and neighbouring countries?

Faisal Falaknaz On the revenue recognition and guidance for next year, we don't, as you know, provide guidance, but maybe that's something we will look at for next year. We'll take that into consideration. But if you take the existing backlog, back solve, like you said, for the two, three year period recognition, and assume the 30% to 35% margin that we generally guide on, you will see that the numbers will be significantly higher than where they are today. On the EBITDA margin, the range we typically give, like I said, is 30% to 35%. We've had some increase in construction costs, which was more than offset by an increase in prices. You're right, in Dubai, we do have the land costs, unlike our projects here, in Abu Dhabi, but we're still achieving very good margins, given the higher property values in Dubai.

And then lastly, if you remember, in the previous quarter, we did the accounting change, where we are now pushing the direct marketing costs above the line above GP. And therefore, after taking all of that into consideration, just to be conservative, I would model the GP margin towards the lower end of that 30% range. And then moving on to deployment, yes, we haven't deployed that AED 5 billion, but we still had a busy year. We announced the acquisition of Fahid, we announced the JV with Dubai Holding at the beginning of the year, we announced the JV with Mubadala in terms of the new commercial office towers on Al Maryah, we announced the merger with Eltizam, we announced the acquisition of the two schools, one in Dubai, Kent, and one in Abu Dhabi, Virginia, with the expansion of the Cranleigh brand into Bahrain. And then lastly, the acquisitions of Basatin. And so, we've been quite busy, but we haven't deployed a significant amount of that AED 5 billion. We have a number of opportunities brewing. Our plan is to deploy a significant amount of that AED 5 billion, assuming those deals do get concluded. But the most likely scenario is that part of that AED 5 billion will be carried over into next year, and that AED 5 billion also includes part of the international acquisition strategy that we are looking at.

Taher Saffieddine Just a follow-up on the international acquisitions. This is the first time that we really hear about Europe as a new geography. We were used to UAE, Abu Dhabi, then you went into Ras Al Khaimah, then you talked about Dubai. Egypt has been there. Saudi has always been maybe talked about as a natural progression. But why Europe? Going into a mature market, which is maybe more competitive. Don't you see a bigger execution risk? You already have a full plate, in terms of running through on the development and recurring portfolio. Don't you see that shift of international strategy as maybe too much to chew at this stage? I'm just trying to think out loud here and hear your views.

Faisal Falaknaz We feel that we've achieved significant scale in our market, both on the development side, and on the investment side, where we successfully deployed AED 7.5 billion last year. We feel part of that expertise and franchise can be capitalised on, if we take it outside our region. Given who our shareholders are, we have a lot of relationships that we can leverage, in terms of players on the ground, which can help us get into the areas that we are interested in. And then, like I said, part of the strategy is accelerating access to asset classes that we think are not very easily accessible here, and are much more easily accessible in those mature markets, being again, the logistics, the storage, the student housing, and credit, etc.

Now, I've always got the question, in terms of whether we're going to look beyond the markets that you mentioned, and my answer was, yes, but we're not yet ready. So, I think we are ready now. And we consciously decided that we don't want to go to the far west, which is the US, and we don't want to go to the Far East, which is Asia. We decided to go with Europe, given the proximity, and given a lot of the synergies that we feel we can recognise across the different asset classes that we might pursue.

Taher Saffieddine Okay, very clear. Thank you.

Operator Thank you. As a reminder, if you wish to ask your question via the telephone lines, please press star, followed by one, on your telephone keypad now. Our next question comes from Mohamad Haidar of Arqaam Capital. Mohamad your line is open, please go ahead.

Mohamad Haidar Hello, Faisal. Thank you for the call. A quick question on the development management business. I see that execution is going well, but the new additions are still lower than what's being executed. What's the strategy for this business? Do you think, at some point, you will be winning big awards again, like we saw in 2022? Or will we continue to see this execution exceeding new awards? And then on the hospitality business, I'm not sure if you have the data, but is it possible to get any colour on the breakdown of nationalities, who are the main tourists flowing into your hotels? Thank you.

Faisal Falaknaz On the project management side, we had a slight drop, in terms of profitability versus last year. But we added I believe, AED 2 billion of new projects this quarter, and AED 3.9 billion year to date. Now there's going to be a significant pickup in that. There were some delays, in terms of project awards that are going to happen as we speak. And then I think one of the most important drivers that is going to drive the growth on the project management side is the Balghaiylam project. This is a fixed price project, which generally has a higher profit margin than our usual cost-plus projects. This project is expected to have somewhere between AED 800 to an AED 1 billion profit over the next three to four years.

So, to answer your question, we're very confident that the project management business will continue doing well going forward. It is just a timing issue today. On the hospitality business, I don't have the nationalities off the top of my head, but maybe this is something my IR team can come back to you on later.

Mohamad Haidar Thank you, Faisal.

Operator Thank you. Our next question comes from Jagadishwar Pasunoori of NBK Capital Jagadishwar, your line is open, please go ahead.

Jagadishwar Pasunoori Hello, how are you? Can you hear me?

Faisal Falaknaz I can hear you, sir, please go ahead.

Jagadishwar Pasunoori Thanks. Congratulations on a good set of numbers. I'm looking at your guidance for Aldar Investment, and I think the guidance is between AED 2 billion and AED 2.1 billion for Aldar Investment in EBITDA. Please correct me if I'm wrong, so far, your nine months EBITDA is AED 1.6 billion. So, if that guidance stays the same, then for Q4 guidance, EBITDA could be 400 to 500 million. I understand that Aldar made 580 million in EBITDA in Q3, and usually, Q4 is better, because of the hospitality. So, what am I missing here? Is there a chance of beating your guidance on EBITDA in investments?

Faisal Falaknaz We haven't revised the guidance, you're right, but we're confident we will be able to slightly surpass that guidance. So, that portfolio will continue doing well. As you can see, in the commercial side, we're quite well leased up. Retail is slightly down, because of the Al Jimi repositioning. Residential is almost flat, in terms of organic like-for-like, and hospitality is performing better. But in summary, I think we will be slightly over that guidance.

Jagadishwar Pasunoori Usually, Q4 is better than Q3, right, for the hospitality? Is that right?

Faisal Falaknaz That's a fair point, yes.

Jagadishwar Pasunoori Great. I know you tried to answer on the European venture that you're talking about. Can you help us understand what is the exact capital that you have outlined for European investments?

Faisal Falaknaz So, like I said, we don't give guidance. We said the UAE will always be our focus, as part of the annual… Sorry?

Jagadishwar Pasunoori Sorry. So, UAE, you still have AED 5 billion capital you won’t commit?

Faisal Falaknaz No. So, AED 5 billion is the guidance we have given for deploying into the recurring income side of the business, which if levered up, is AED 7 billion to AED 8 billion. Now you have this international strategy that comes into play, that will be part of that AED 5 billion. And the majority of that deployment will be UAE, and an ancillary part of that will go into the international expansion strategy. And then on an annual basis, we will always give you guidance, in terms of how much we plan to deploy, in general. And part of that deployment, the majority, will go to the UAE, and the minority will go in to this international expansion strategy.

Jagadishwar Pasunoori Great. And coming to development, as far as I understand, international consisted of around 10% of your presales before. Now I think nine months, it's close to 22%, 23%. So, what actions have you taken to increase these international sales, sales to international customers? And do you think this is sustainable going forward?

Faisal Falaknaz Well, the first thing is that the country's policies has made this very possible. The Golden visas, the 100% legal ownership, the quality of life in Abu Dhabi. Dubai has always had that international market component, but I think Abu Dhabi has changed and has become very appealing to that international crowd, which views Abu Dhabi as an alternative place to put their capital. And the other thing that we did is grow our international network. We are building out our international network across Europe, across the US, across China, and we are starting to realise the benefits of growing that network.

Jagadishwar Pasunoori Okay, great. Thank you very much and good luck.

Operator Perfect, thank you. We will now move to some written questions. We have a couple here. Can you talk about the major reason for the massive drop in SODIC Egypt GM, 11% in the third quarter 23? And the second, why did Aldar Investments GM decline to 39% in the third quarter 2023? The last six quarters. the minimum GM was 48%.

Faisal Falaknaz On SODIC, this was due to the unwinding of the PPA balances at consolidation. Sorry, just to add to that point, the underlying margin, excluding the PPA adjustment, which was an accounting thing, was actually higher year-on-year. On the investment side of the business, real estate, as you know, has a very high margin, so 70% to 80% margin. Whereas the other businesses being hospitality, education, and principal investments has a lower margin. We're seeing very good growth across the other three capital pools. So, naturally, the margin is being diluted, due to the growth in those segments.

Operator Perfect, thank you. Could you give a breakdown between different overseas nationalities in 9M-23 sales out of the 27%? And then the second, are all your recent projects based on 60% payment during construction and 40% on handover?

Faisal Falaknaz On the nationalities, it's quite a diverse mix again. We cover all regions. So, we have the UK, India, Jordan, Kazakhstan, Egypt, Cyprus, China is starting to grow. We've seen an uptick in Russia, obviously, given what's happening in the market there. But we are quite diversified, evenly distributed across most of the segments. Sorry, what was the second question?

Operator The second question, are all of your recent projects based on 60% payment during construction and 40% on handover?

Faisal Falaknaz On average, yes. We try not to go below that 60% to 70%. Now, we sometimes provide some concessions, if somebody pays 50%, but then you have an offsetting 70%, 80%, 90%, and then you average out somewhere between 60%, 70%, 80%. It depends on the project. So, for example, on the luxury side of things, we can go very aggressive, and then on the more end user, local market products, we tend to be more accommodative for the local buyers, who are end users.

Operator Thank you. What are your expectations for EBITDA margins and absolute levels for development business, in light of the new revised guidance? Is the expansion in Europe on the development or IP side? And what are the sectors being considered? What are the hurdle rates you're targeting for international investments?

Faisal Falaknaz On the margins, like I said, so, let's focus on the UAE business for today. We guide somewhere between 30% to 35% GP margin. I would say, to be conservative, model on the lower end of the range. As part of the international expansion strategy, yes, we are looking at development. And those developments would probably have a lower margin than what you have in the UAE. So, assuming that happens going forward, then we'll provide further guidance, as we get into it. And then in terms of the returns, we'd be looking at high teens equity IRRs across those asset classes in general.

Operator Perfect. As a reminder, if you'd like to ask a question via the telephone lines, please press star, followed by one, on your keypad. You may also submit a written question via the web. We have three questions here. What's the percentage of cash buyers of overall sales this year? And how is this trend compared to the last year? How much are you planning to launch in 2024? And then the third, potential gross development value of the remaining land bank?

Faisal Falaknaz Remaining what sorry?

Operator Potential gross development value of the remaining land bank.

Faisal Falaknaz Okay. So, cash buyers, as you know, we sell off plan. Almost everybody is a cash buyer. Banks provide you with a mortgage, once you hit 40% to 50% of equity. Obviously, we have grown significantly in terms of our backlog. So, we still don't have the data, in terms of what is going to be the mix between cash and mortgage buyers that will play out, as we start handing over those projects that we started selling over the past two to three years. What are we launching in 2024? So, we don't disclose that, but obviously, we are setting very ambitious targets on ourselves, and we will adjust. We are very agile, as an organisation, depending on the market opportunity at the time. I think the best example to give is what we've been doing this year. Given the strength in the market, we've been consistently upping our guidance and capitalising on the strength of the market. And I'd say the same thing will follow into 2024. GDV of our land bank, that's a very complicated question, and I don't think anybody can answer that today.

Operator Of course, thank you. We have a follow up audio question from Taher Saffieddine of JPMorgan. Taer, your line is open, please go ahead.

Taher Saffieddine Hi, Faisal, it’s Taher. Just a follow-up question on Aldar Education and Aldar Estates. Maybe we don't talk about them often, but clearly, the growth there has been impressive. Aldar Education being the second largest private school operator. We're seeing growth, we're seeing M&A, and there's an investment plan there. So, I just want to get your thoughts on what is the medium-term target for Aldar Education? Is this an IPO candidate? Are you looking for a spinoff? Or is now the focus really on scaling up and growing? If you can also share some targets, in terms of what could this business look like in two or three years after the investment plan is fully committed?

Faisal Falaknaz Education, I always call it the hidden gem that nobody gives attention to. I'd like to highlight that Q4 will be a very strong quarter, given that we have increased tuition fees, in line with the guidelines from the government, by 2% to 3% on average across our schools. That is a direct flow through down to our P&L. In addition, on the back of the strong macroeconomic backdrop, we've seen very good pickup, in terms of enrolments. Potential for the business, very strong double digit growth over the next few years. Today, we have about 37,000, 38,000 students. With all the green field that we have announced, in the next three years, we're going to hit 60,000 students, with a much bigger proportion of that 60 being anchored towards operated schools versus managed. Today, one third of our schools are operated, two thirds are managed. We're going to flip it and be more operated than managed, which has more profit in it.

In terms of spinoff, this is the answer I always give. We're not mesmerised by the idea of IPO-ing a business. We will only IPO a business, if it makes sense to create value to our shareholders. I think with the education business, it's probably not the right time today, given how much green field we have in those businesses, and the unutilised enrolment capacity that we have. The public markets will generally not give us credit for that. So, the right time for the education business IPO is probably at some point when it starts to stabilise, unless we structure out the green field and just keep the brown field. That's something we could look at in the future. And then Aldar Estates, I'd say yes, there is also a potential for an IPO. However, this is a very busy integration that is undergoing over the next 12 to 18 months. We have a target, in terms of realising a very good amount in terms of revenue synergies, cost synergies, leverage the relationship we have with the shareholders in Eltizam, ADQ being one of them, and IHC being the other. So, there's a lot of opportunity that can come out of that business.

Taher Saffieddine Thank you. Very clear. Thanks.

Operator Thank you. And we have our final questions here. Aldar Investments has been growing on a consistent basis, so what is the exact reason for gross margin decline this quarter on a consolidated basis? The second one here, which specific markets/countries are you targeting in Europe?

Faisal Falaknaz I think I answered the margin question. t’s the growth in the other three capital pools, which generally have the lower margin than the IP business. So, it's nothing to worry about, it’s just the fundamentals of the business itself. Markets and countries, it’s difficult to answer, because it depends on the asset class. Each market is very different than the other. But we're going to be looking at the cities that have the strong macroeconomics, cities that people want to live in, cities that have very strong commerce activity. So, if we're looking at alternative asset classes being logistics and self-storage, for example. So, it depends, case by case. Again, we wanted to give you guys a heads up, in terms of what we're looking at, and we'll come back to you with more guidance, as we progress.

Operator Of course, thank you. We do have a last minute question registered here. Aldar recorded an AED 70 million one-off this quarter related to the early termination of a bulk residential lease, could this mean lower occupancy on the residential portfolio next quarter?

Faisal Falaknaz So, the lease is actually ending, as we speak. I think it just happened a few weeks ago. However, before the lease terminated, we had already started on preleasing those units. We're trying to catch up as quickly as we can, before the end of the year. And then one offsetting factor might be any acquisition that we do before the end of the year, so that might help offset some of the drop in the organic growth of the portfolio.

Operator Perfect, thank you. At this stage, we currently have no further questions registered on the call. So, therefore, this concludes today's event. Thank you for joining. You may now disconnect your lines.