



Dubai: A Closer Look into 2013

Q 1 2014

This document is provided by Unitas Consultancy solely for the use by its clients. No part of it may be circulated, quoted, or reproduced for distribution outside the organization without prior written approval.

Executive Summary

A closer look into Dubai's real-estate market performance in 2013, indicates that rental growth rates have tripled in the last three years, whereas GDP continues to grow at 4% CAGR. This exuberant rise in rents has put pressure on the middle-class in their search for affordable housing causing them to migrate to areas such as Jumeriah Village, Sports City, and DSO.

In the first nine-months cash transaction across various communities increased by 25% compared to the year before, causing fears of a bubble forming. In October 2013, the Government of Dubai intervened by increasing transfer fees from 2% to 4% in order to curb speculation. These prudent measures have been proven to be effective in slowing the market, reflected in the dip in transactional activity.

Historically, villas have had superior growth rates in both prices and rents to those of apartments. However, in 2013 we witnessed a paradigm shift due to an imbalance of supply and demand metrics due to which apartments have outperformed the villa space.

The price action of 2013 has not affected mortgage transactions, as Dubai real-estate market continues to transform from an investor driven to an end-occupier market. Areas such as Marina, JLT, and Sports City have witnessed more than a 70% increase in mortgages compared to 2012.

As Dubai starts to roll out supply in 2014 to meet the growing demand we can see that new units are skewed towards villas than apartments, especially in the prime segment. This imbalance of supply will likely lead to tapering of prices in the villa segment, whilst demand for apartments will continue to grow especially in the affordable housing segment, as it accounts for 43% of the population.

Table of Contents

- A) Rents; Up, Up and Away
- B) Winners and Losers
- C) Bubble Bubble Toil and Trouble
- D) Home Ownership Climbs
- E) Unitas Consultancy Predictions Visited
- F) A Glimpse into 2014
- G) Conclusions



Rents Up Up and Away

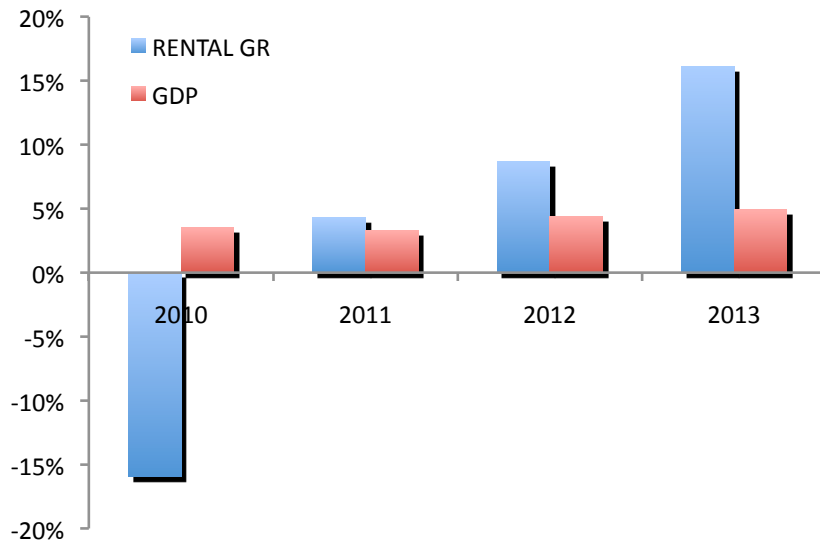


“What goes up, must come down” – Isaac Newton

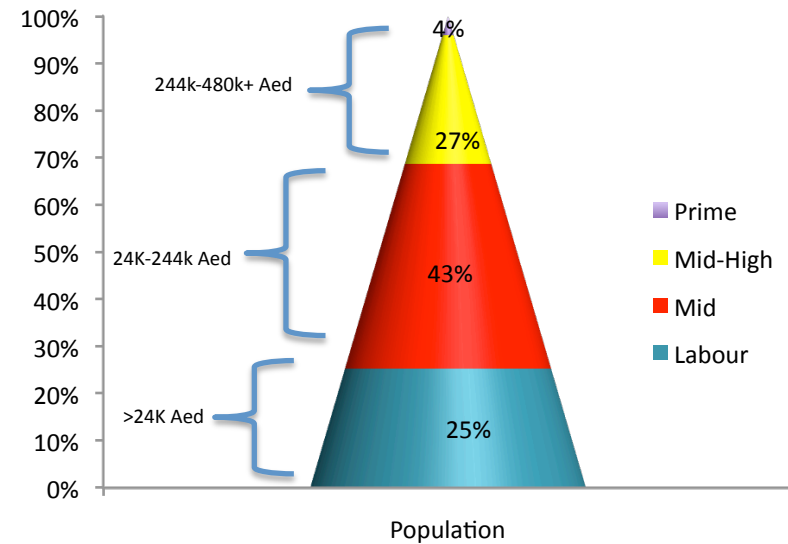


Dubai's Middle-Class Under Pressure

Rental Growth Rates Versus GDP Per Capita



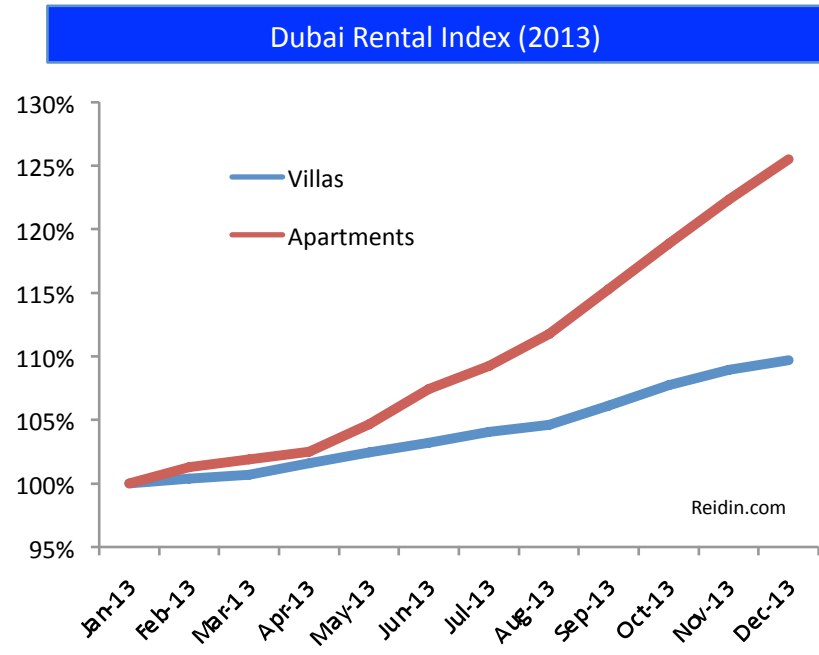
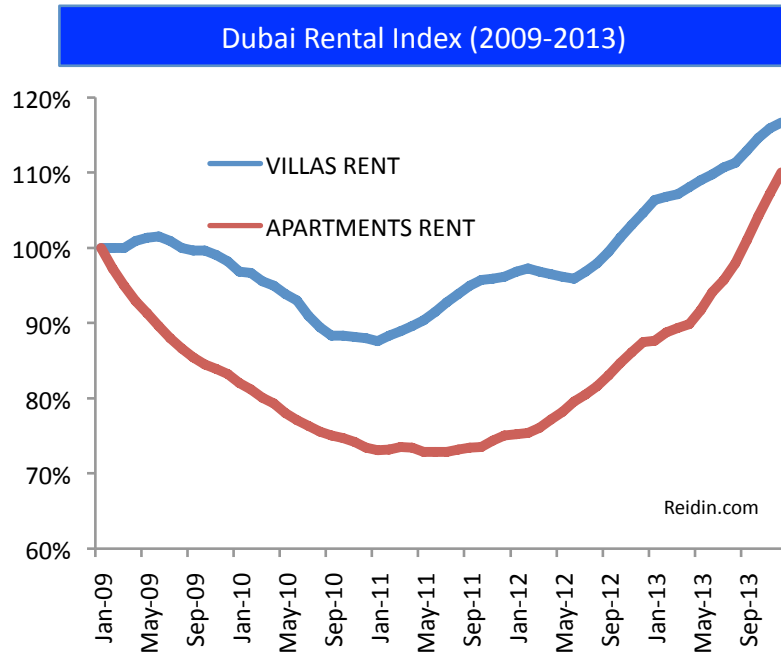
Population by Income-Segmentation



	2010	2011	2012	2013
DUBAI POPULATION ('000)	1,905	2,003	2,106	2,215
GDP (M)	295,256	304,989	318,000	333,582
GDP GROWTH RATE	3.50%	3.30%	4.40%	4.90%
RENTAL GROWTH RATE	-16%	4%	9%	16%

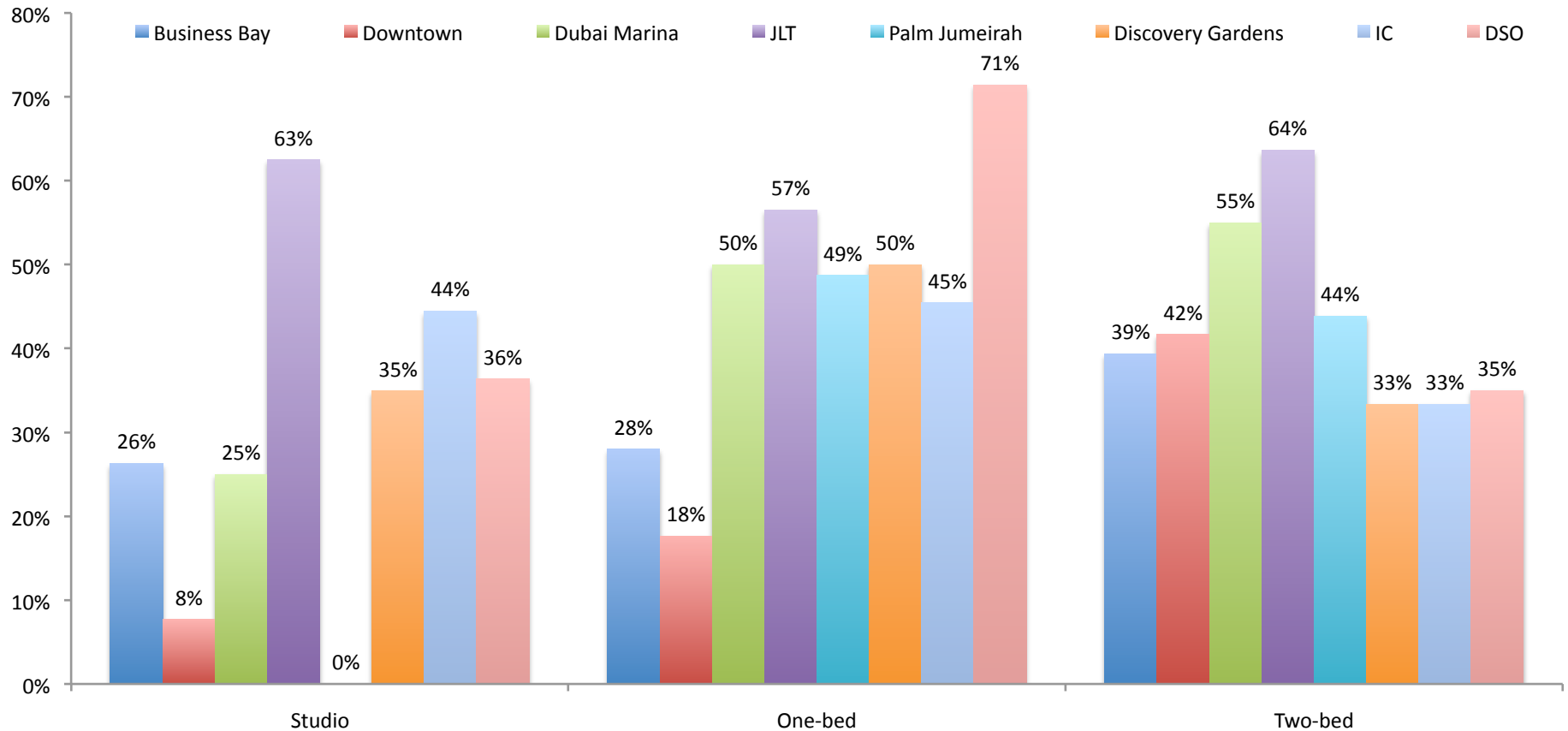
An income segmentation analysis of Dubai depicts that the major demand in the housing market will be from the mid-income segment as it accounts for nearly half the population. As GDP continues to grow at an average of 4% in the last three years, rental growth rates have tripled. This disproportionate rise between GDP and rental growth rates have put pressure on the mid-income segment as they struggle to find affordable housing.

Rents in Apartments Outperform Villas



The bulk of the supply for affordable housing is within the apartment housing segment, which has been growing in parallel to the middle-class community. Last year Dubai witnessed a paradigm shift, where apartment rental growth rates appreciated faster, compared to historical trends of Villas being the leader. We expect this trend to continue until additional units in the mid-income segment are delivered, balancing supply and demand dynamics.

Renters Struggle to Find Affordable Housing



A comparison between the Rera Index of Q1-2013 and Q1-2014, depicts a sharp YOY increase in rents, where certain communities have risen more than 50%. This increase in rents has started a migratory effect within the mid-income segment as they search for affordable housing. Areas such as JLT and Dubai Marina, which were once considered affordable-living post crash of 2009, have returned to areas for the High-Income segment. Communities such as IMPZ, DSO, Jumeirah Village which are approximately 40% lesser have become key repositories for housing the middle-class

Table of Contents

A) Rents; Up, Up and Away

B) Winners and Losers

C) Bubble Bubble Toil and Trouble

D) Home Ownership Climbs

E) Unitas Consultancy Predictions Visited

F) A Glimpse into 2014

G) Conclusions



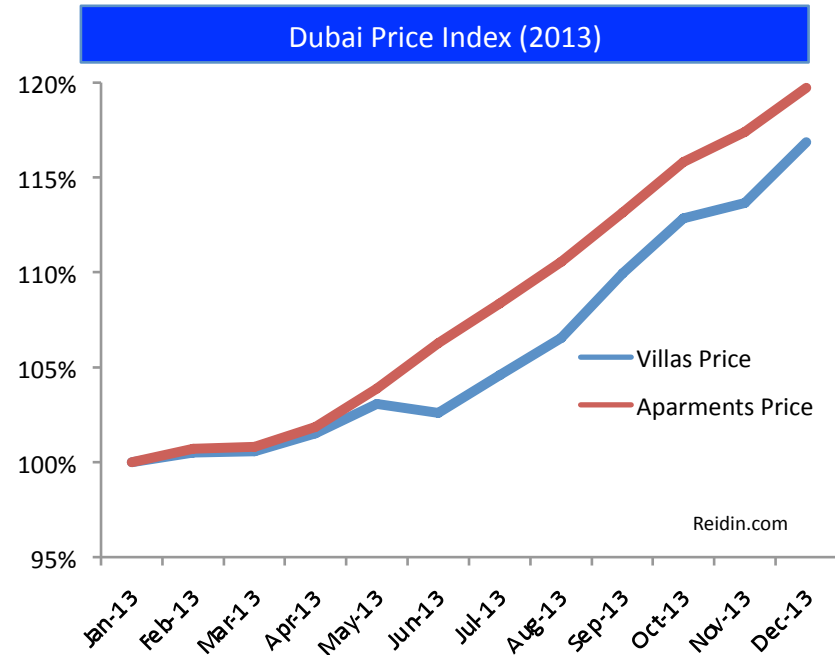
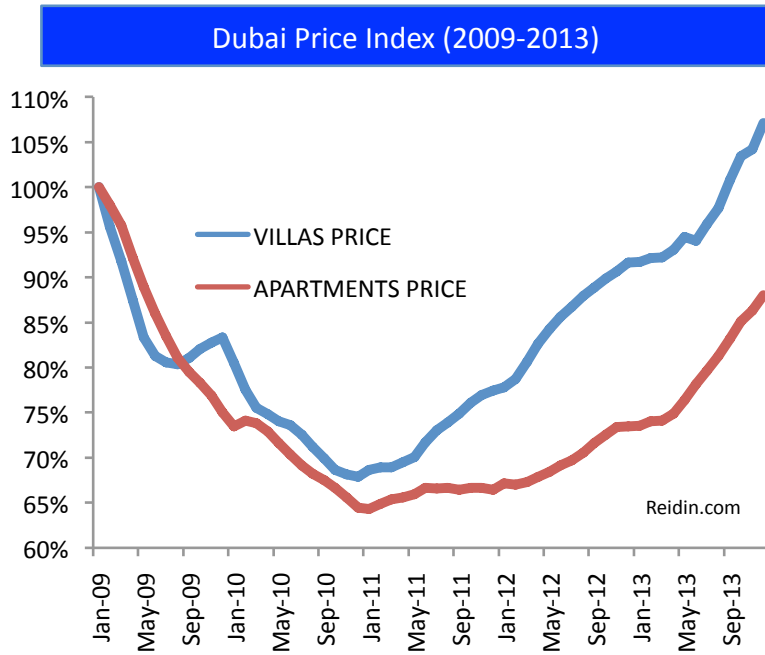
Winners and Losers



"If winning isn't everything, why do they keep score?" - Vince Lombardi

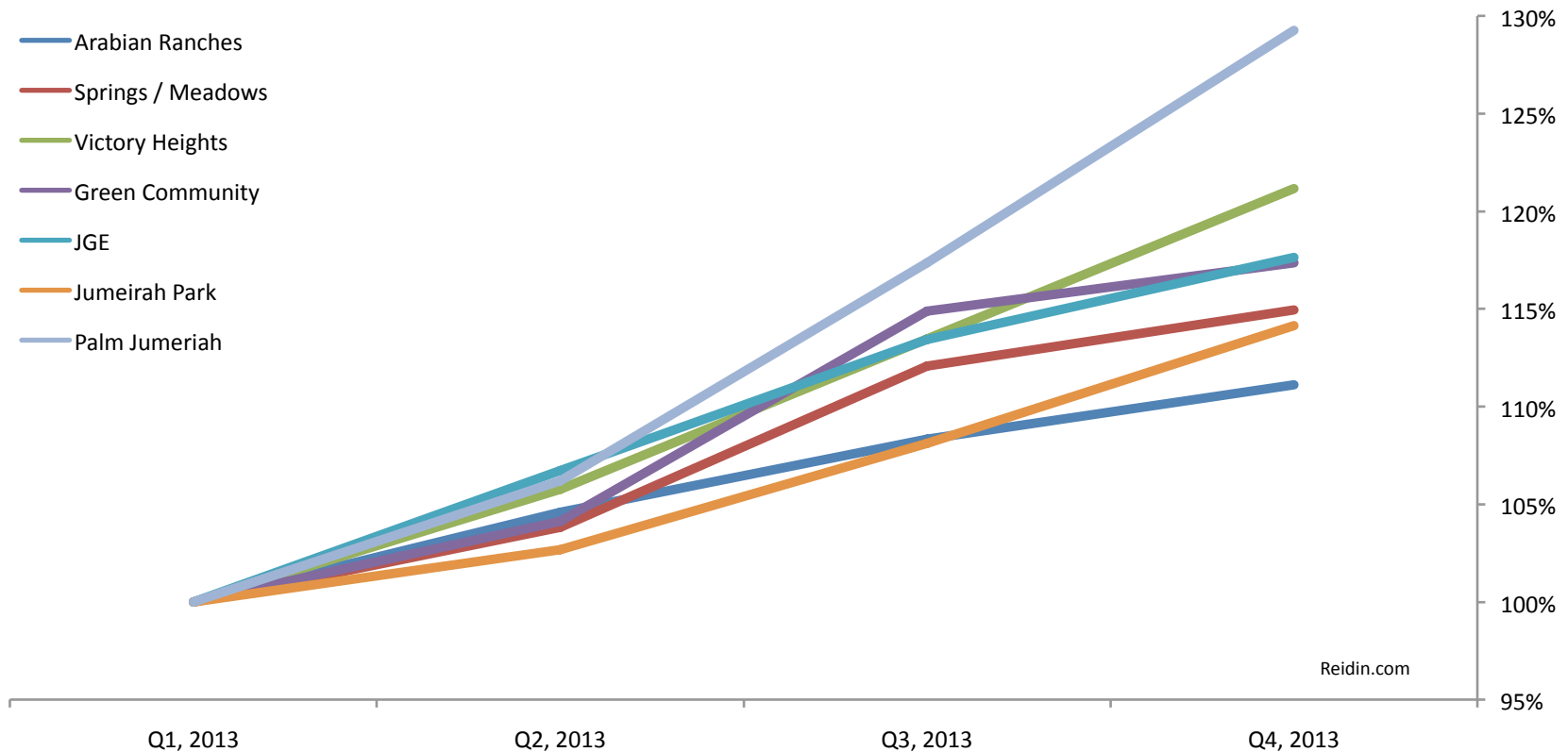


Similar Trends Witnessed in Price Appreciation



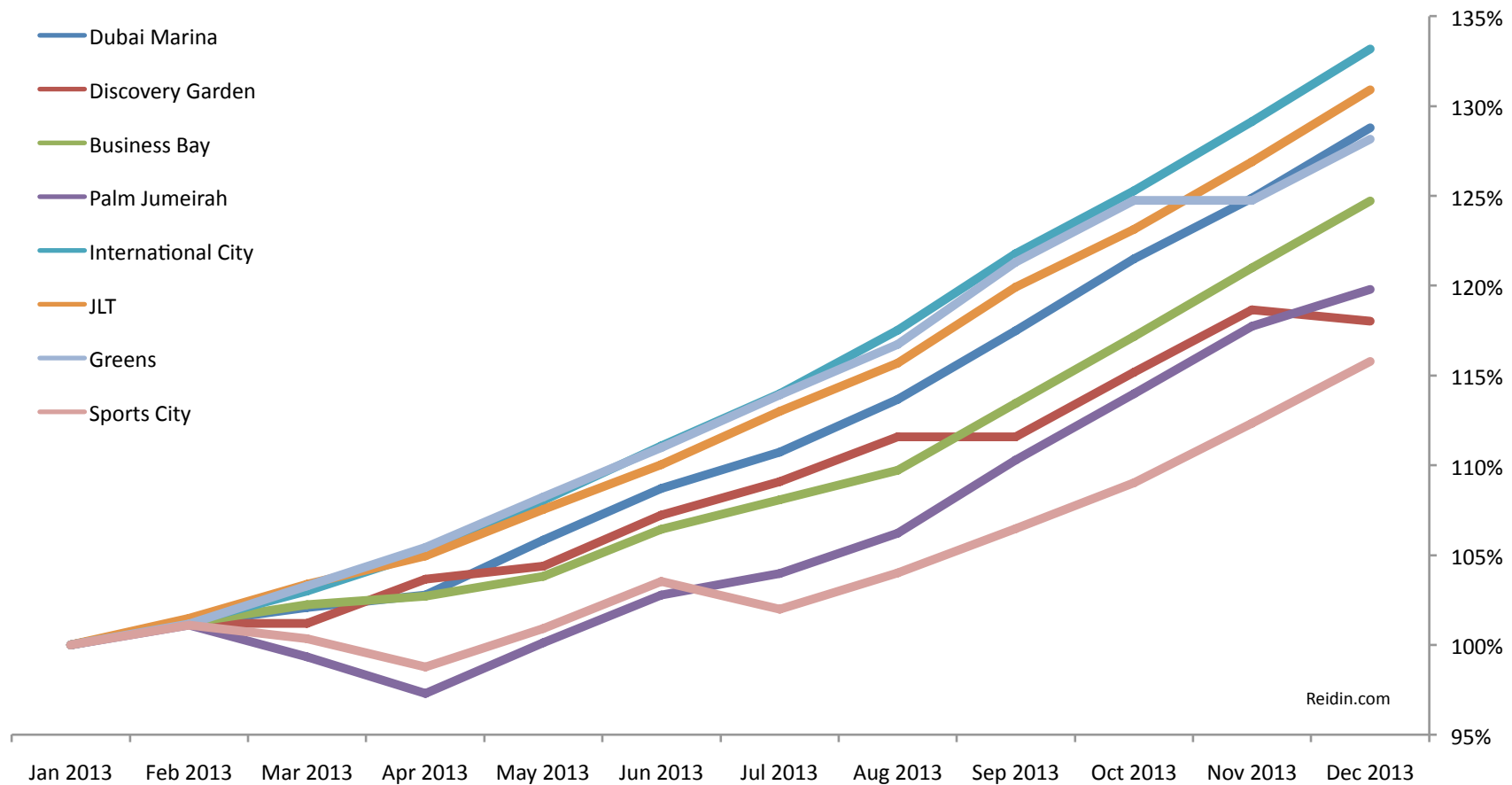
Over a five year period prices in the apartment segment have underperformed compared to the villa segment by 20%, whereas in the last year apartments have out-performed by 3%. This increase in price growth can be attributed to the strong demand by the middle-class, as well as mismatch of supply. The plethora of new villa communities that have been launched in the villa segment such as MBR City District 1, Dubai Hills, Akoya, The Extension of Arabian Ranches, which has created the possibility of surplus supply in the villa market, slowing down appreciation.

Palm Jumeirah Experiences Highest Appreciation in the Villa Segment



Palm Jumeirah has outperformed the villa market, with a 30% increase in the last year. This increase can be attributed to the notion that ostentatious buying is prevalent in the villa segment. We expect price appreciation to curb in this segment, as Dubai starts to roll out an excess of luxury villas, with a large back-log waiting to be activated such as the Lagoons, Palm Jebel Ali, Waterfront, and DWC Golf City.

... Whereas International City is the Best Performer in Apartments



An analysis in the apartments segments depicts that International City (known as the centre of affordable living in Dubai) has outperformed, appreciating by 35%. This leads us to believe that the market has factored in the scarcity of supply within the affordable housing market. We opine that this trend will continue as the roll-out of new supply continues to be lopsided, skewed towards prime-housing. The main beneficiaries to this price action will be communities such as DSO, IMPZ, JV and Discovery Gardens.

Table of Contents

A) Rents; Up, Up and Away

B) Winners and Losers

C) Bubble Bubble Toil and Trouble

D) Home Ownership Climbs

E) Unitas Consultancy Predictions Visited

F) A Glimpse into 2014

G) Conclusions



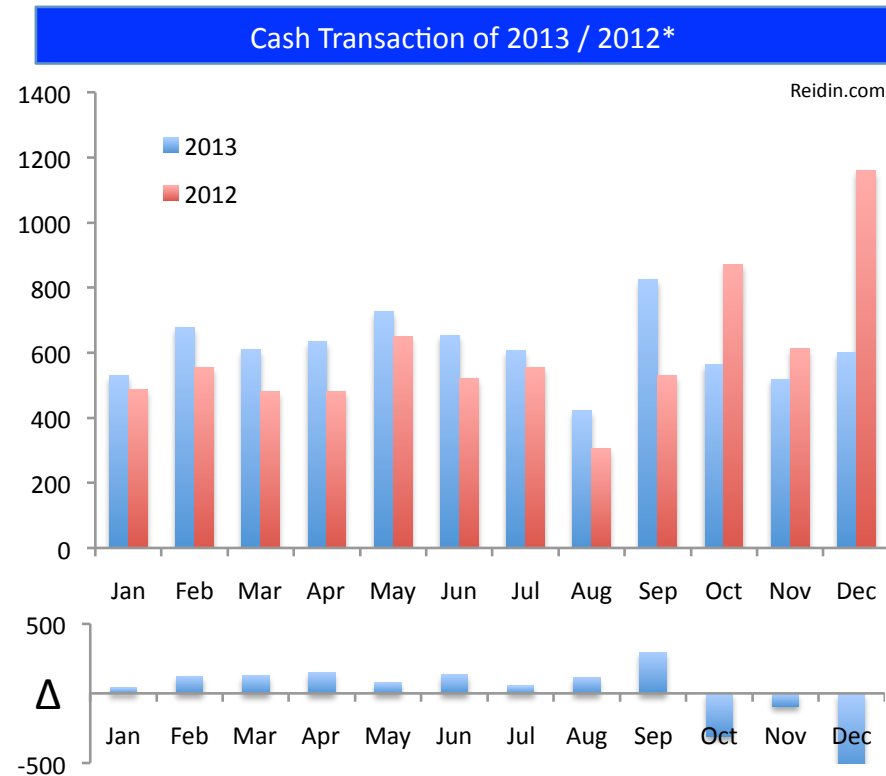
Bubble Bubble Toil and Trouble



“Even when laws have been written down, they ought not always to remain unaltered“- Aristotle



Bubble Bubble Toil and Trouble



As the property market continued to heat up for the most part of 2013 reflected in the increase of cash transactions between 2012 and 2013, the Dubai Government passed new laws to control speculation. In October 2013 the government increased property transfer fees from 2% to 4 % in the hope of ‘cooling’ the market. These prudent measures have been effective, as the number of cash transactions have slowed since the measures have been implemented.

*Areas include JLT, Marina, Palm Jumeriah, Arabian Ranches, Sports City, IMPZ

Table of Contents

- A) Rents Up, Up and Away
- B) Winners and Losers
- C) Bubble Bubble Toil and Trouble
- D) Home Ownership Climbs
- E) Unitas Consultancy Predictions Visited
- F) A Glimpse into 2014
- G) Conclusions



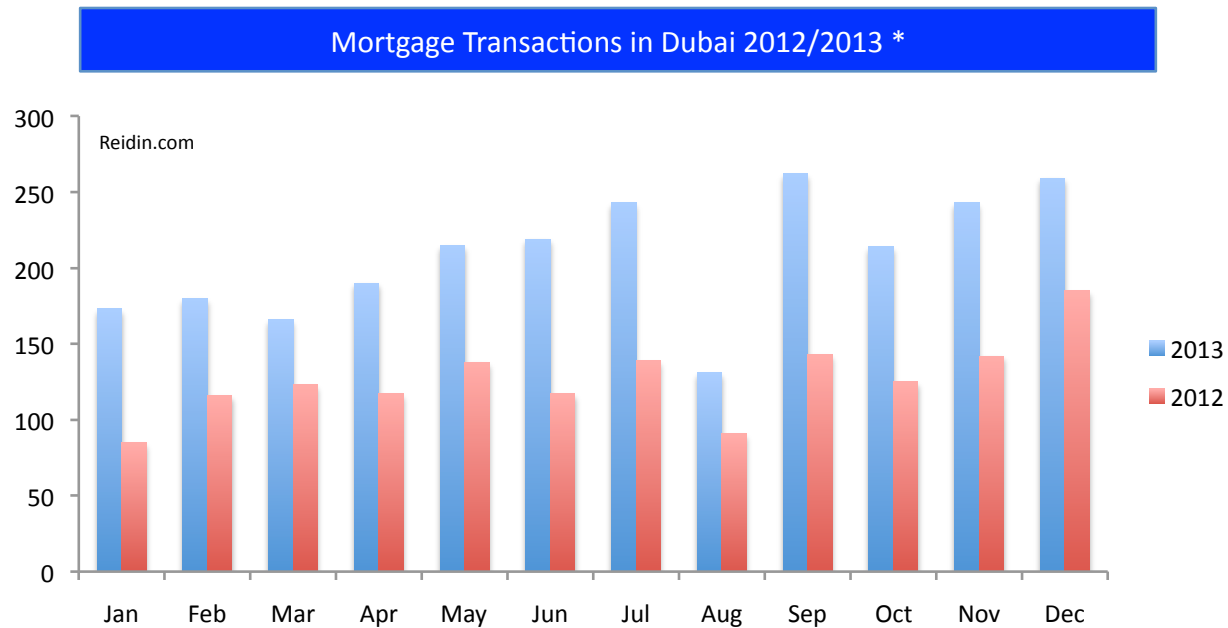
Home Ownership Climbs



“Home ownership is the cornerstone of a strong community” - Rick Renzi



Home Ownership Continues to Rise in 2014...



An analysis between the mortgage transactions of 2012 and 2013, shows that home-ownership within the expatriate community continues to grow, with a 61% increase from last year in certain areas. Regardless of the price hike last year, residents are still favorable of Dubai as a long-term destination, making the real-estate market less speculative and more driven by fundamentals in nature. This trend is expected to grow as the city creates new jobs and avenues for growth, further being anchored by the win of World Expo 2020.

*Areas: JLT, Marina, Palm Jumeriah, Arabian Ranches, Sports City, IMPZ

Up Up and Away



The above charts indicate that regardless of the price action last year, the number of mortgages have exhibited a steadily rising pattern, insinuating the continuous shift from an investor dominated market to an end-user owner occupied market

Table of Contents

- A) Rents Up, Up and Away
- B) Winners and Losers
- C) Bubble Bubble Toil and Trouble
- D) Home Ownership Climbs
- E) **Unitas Consultancy Predictions Visited**
- F) A Glimpse into 2014
- G) Conclusions



Unitas Consultancy: Predictions Visited

Home-Ownership: Dubai's Road to Prosperity (Q-1, 2013)



"The future belongs to those who prepare for it today." -Malcolm X



“Dubai’s expatriate community is increasingly converting from renters to owner occupiers. This trend is expected to continue as the city continues to create new jobs and avenues for growth”

Home-Ownership: Dubai’s Road to Prosperity Q-1 2013

Area	% Increase of Mortgage Transactions 2012/2013
Marina	92%
Jumeriah Lake Towers	90%
Dubai Sports City	82%
Palm Jumeirah	34%
Arabian Ranches	25%

Reidin.com

Dubai continued population growth (5% CAGR), along with a steady increase in business activity and GDP growth has been the key factors in driving up home-ownership. The win of the 2020 World Expo, will continue to fuel this growth creating jobs across various sectors enticing people across-borders to flock to Dubai.

“JLT and Emirates Living are expected to outperform in the coming year, as end user ownership gathers pace, and the mean reversion hypothesis takes hold”

Home-Ownership: Dubai’s Road to Prosperity Q-1 2013

“JLT is poised to outperform as Middle-income home ownership gathers pace” – Q1 2013

Price Index	Marina	JLT
Q4 2013	129 %	131%
Q3 2013	118 %	120 %
Q2 2013	109 %	110 %
Q1 2013	100 %	100 %

Reidin.com

JLT has out-performed Marina by +2%. This can be attributed to the fact that JLT’s attractiveness as a community has grown with its improvement in its infrastructure (parks, bridges, road network), along with its status as the fastest growing free zone in Dubai

“Emirates Living area appears to be undervalued on a relative basis to Arabian Ranches” – Q1 -2013

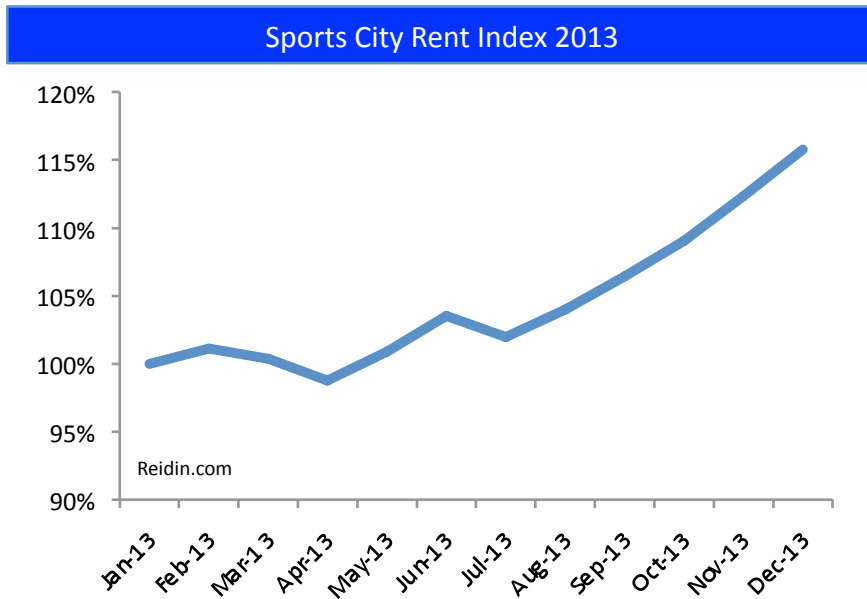
Price Index	Arabian Ranches	Springs / Meadows
Q4 2013	111 %	115%
Q3 2013	108%	112%
Q2 2013	105%	104%
Q1 2013	100%	100%

Reidin.com

Springs/ Meadows outperformed Arabian Ranches by +4%. Emirates Living had been attractively valued at the beginning of the year, which has been reflected in its superior growth rates to that off Ranches

“A migratory effect will take place to areas such as Jumeirah Village and Sports city as tier one markets start pricing out middle income families”

Home-Ownership: Dubai’s Road to Prosperity Q-1 2013



TheNational

Dubai residents searching for cheaper properties as rents rise

Martin Croucher

December 23, 2013 Updated: December 23, 2013 23:59:00

✉️ 🖨️ [Tweet](#) [Share](#) [+1](#) [Recommend](#) 104

DUBAI // More tenants are searching for homes in less expensive developments as rents increase.

Areas such as Dubailand, Dubai Sports City and Jumeirah Village Circle are becoming more popular among potential tenants and buyers, according to statistics from propertyfinder.ae.

The website, a portal to connect residents with brokers and agents, analysed more than two million visits to the site in the past three months and compiled a list of the most searched-for developments.

Related

- Victory Heights finished at Dubai Sports City
- That old problem – anxious tenants and greedy landlords
- Dubai’s official rent calculator to include gyms, pools and views
- Potential for rent rises in Dubai

The rental price increase in Dubai, especially in prime areas such as Dubai Marina, JLT, Greens has put pressure on the mid-income segment as they search for affordable housing. Communities such as DSO, Sports City, IMPZ, and Jumeriah Village have become popular repositories for this segment because of cheaper rents. This surge in demand can be reflected in the increase of rents in these areas i.e. Sports City +16%.

Table of Contents

- A) Rents Up, Up and Away
- B) Winners and Losers
- C) Bubble Bubble Toil and Trouble
- D) Home Ownership Climbs
- E) Unitas Consultancy Predictions Visited

F) A Glimpse into 2014

G) Conclusions



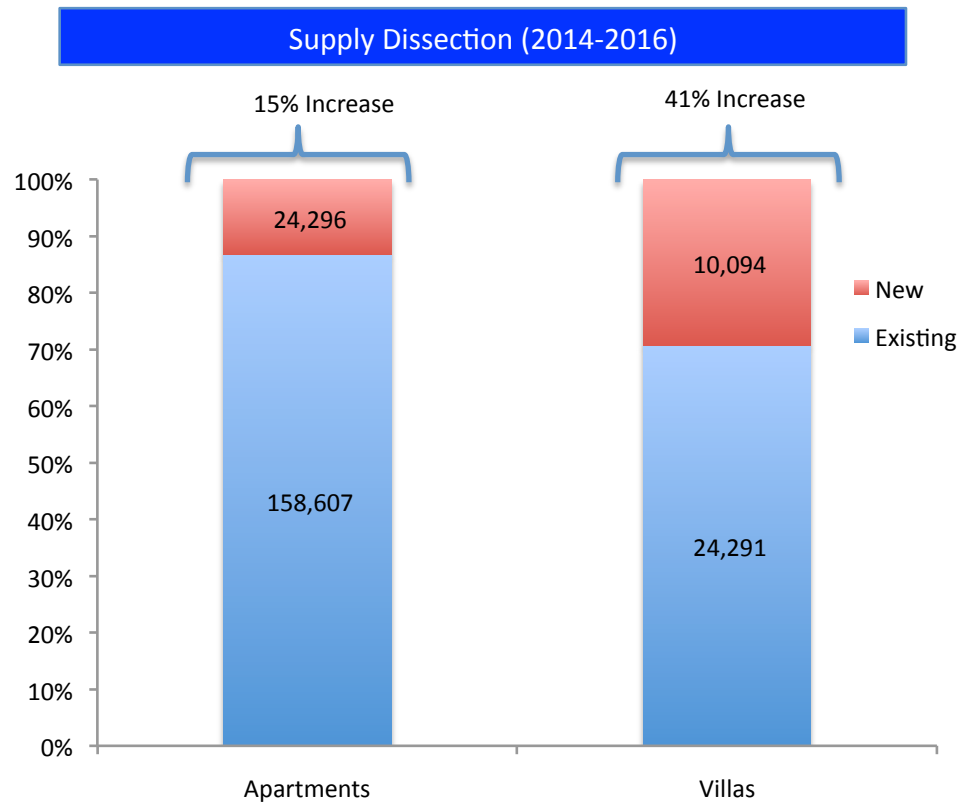
A Glimpse into 2014



“The past is never dead. It's not even past.” — William Faulkner

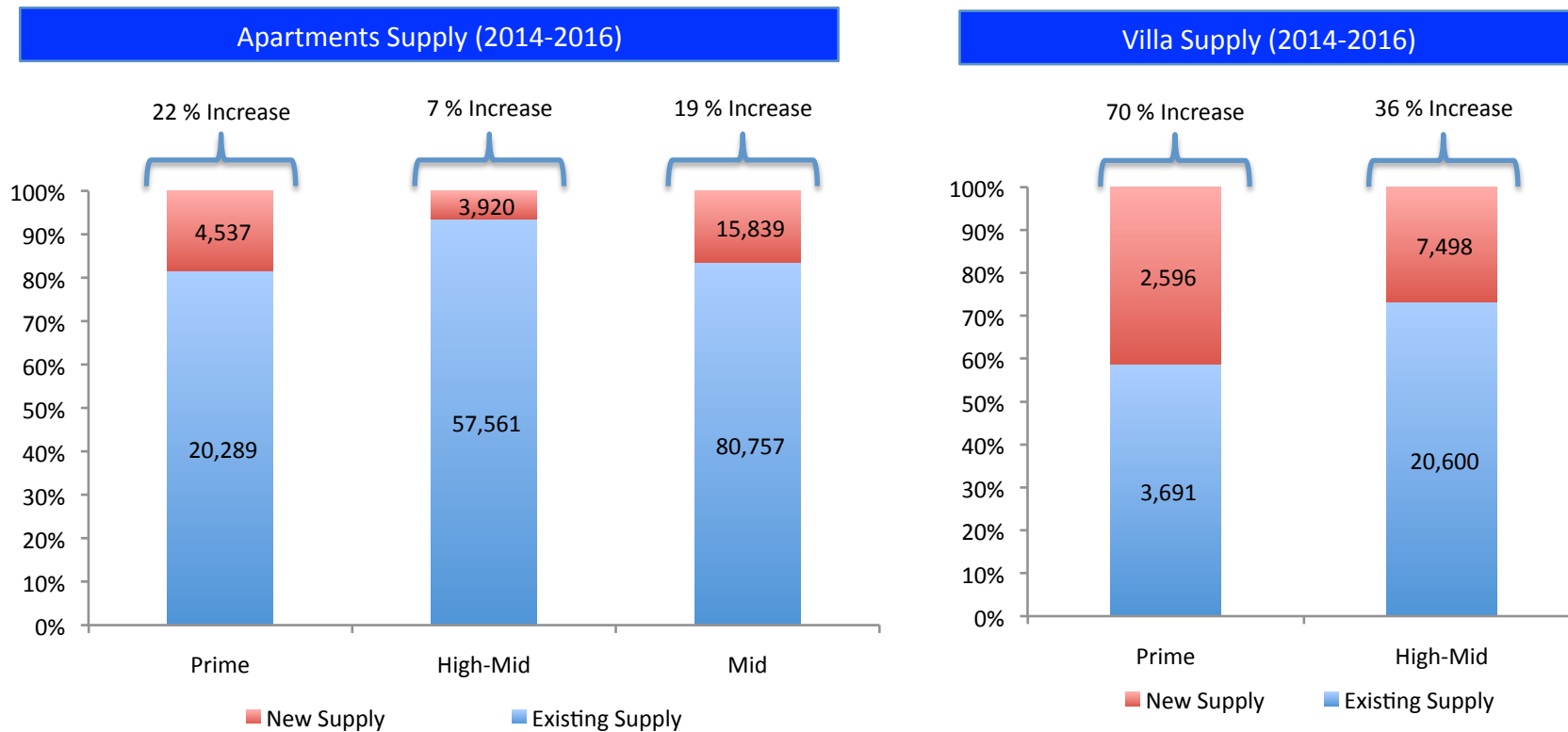


New Supply Skewed Towards Horizontal Living



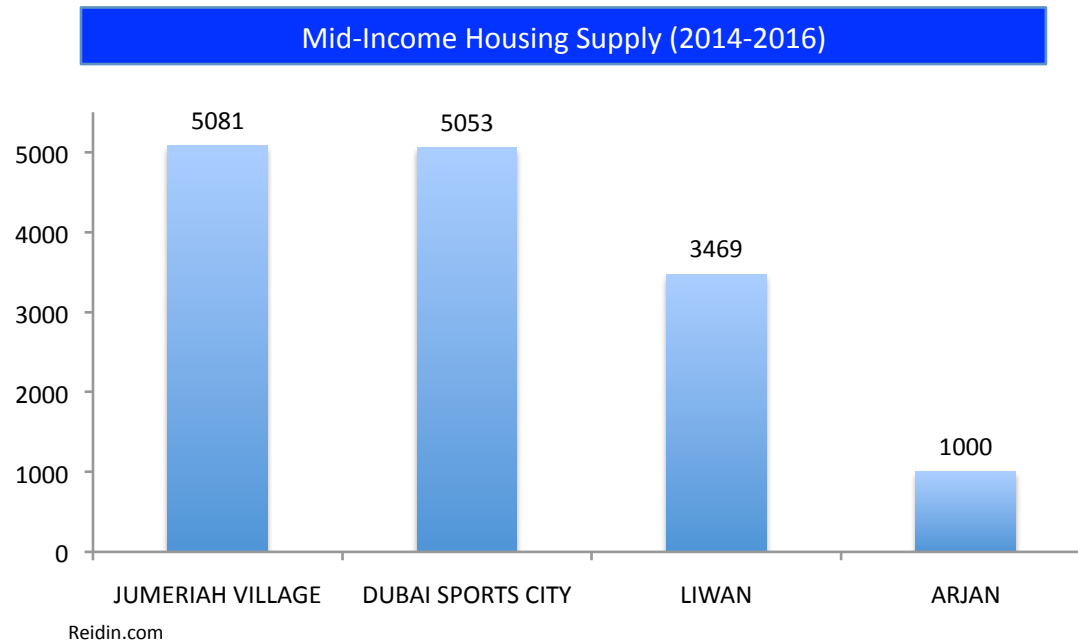
An estimated number of 24,296 units (15% increase of existing supply) will enter the apartment housing segment, compared to 10,094 (41% increase of existing supply) units in the villa segment. The surplus created within the villa community will further taper price actions of this segment. The imbalance of supply will lead to higher price growth rates for apartment communities, driven predominantly by greater demand in the middle-income group

Prime Villas Expected to Incur Highest Increase in Supply



A dissection of the new supply into the market shows that the highest increase will be from the Prime Villa segment, with a 70% increase. Moreover, High-Mid apartment localities are the most under-served increasing demand for locations such as JLT, Non-prime Marina, and Business Bay.

Mid-Income Housing Supply : 2014-2016



As pressure starts to build on affordable housing, areas such as, Jumeriah Village, Sports City, Liwan, and Arjan are expected to roll out the bulk of the supply for mid-income housing segment. These communities will provide the housing units needed to sustain Dubai's growing middle-class. We expect to see a surge of development in other mid-income housing communities with large land banks such as International City Phase II&III, Dubai World Central Residential City, Dubai Industrial City, and Dubai Investment Park.

Table of Contents

- A) Rents Up, Up and Away
- B) Winners and Losers
- C) Bubble Bubble Toil and Trouble
- D) Home Ownership Climbs
- E) Unitas Consultancy Predictions Visited
- F) A Glimpse into 2014
- G) Conclusions



Conclusions

The Mid income Segment will create the greatest demand for housing units as they account for nearly half of the population

A migratory effect is underway to areas such as Jumeriah Village, Sports City, IMPZ and DSO as tier one markets start pricing out middle-income families

Affordable Housing Under Pressure

The continued increase in rental growth rates (16%) have put pressure on the middle-income segment as they search for affordable housing

Sectors such as manufacturing and hospitality, which expanded by 13% and 17% last year, has created a windfall of jobs predominantly falling in the middle class increasing the demand for affordable housing

Areas such as Jumeriah Village, Arjan, Liwan, DSO, and IMPZ will act as repositories for accommodating the migratory shift of the middle-class as they get priced out from Tier 1 housing

Winners and Losers

Historically, the Villa segment has outperformed the Apartment. However, in the last year Apartments had superior price growth rates, which can be attributed to the strong demand exerted by the middle class

Palm Jumeirah has been the leader in the villa segment (30%), depicting that the 'trophy buying' phenomena is still very prevalent within this segment

International City has outperformed the apartments segment (33%), reinforced the demand for affordable housing

Home-Ownership Continues to Climb

Dubai's real-estate market continues to shift focus from being an investor-driven market to an end-user market

Mortgage transactions incurred a rise of 64% across various communities including JLT, Marina and Palm Jumeirah, insinuating that Dubai's real-estate revival is based on fundamentals compared to speculation

We expect this trend to continue as the job market expands due to population growth, increase in business activity and FDI

Outlook of 2014

As 2014 starts to take off we see an imbalance of supply and demand occurring. New units being delivered in the market is skewed towards prime properties, especially in the villa segment, compared to mid-income housing.

This mismatch of supply and demand metrics, is likely to further taper price of villas, while accelerating those of apartments.

We expect to see a surge in prices of the mid-income housing segment, until land banks in mid-income housing communities get actualized i.e. DIP, DWC (Residential City), DIC, and International City

To Summarize

Purpose

To Manage, Direct, and Create wealth for the Clients

Philosophy

- Efficient capital allocation
- Rigorous analysis
- Timely execution



Values

- No conflict of interest
- Client's interests come first
- Transparency is the key hallmark

Strategy

Emphasize role of diversification by leveraging expertise of capital across Dubai in a conservative yet opportunistic manner



Our Aspiration and Motto



“No barrier can withstand the strength of purpose”

HH General Sheikh Mohammed Bin Rashid Al Maktoum
The Ruler of Dubai and Prime Minister of UAE

