

STRICTLY CONFIDENTIAL



## Dubai: Boom-Bust-ology

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# Executive Summary

- Historically, since the advent of the freehold phenomena, Dubai's population has grown by approximately 7% per annum (75% of the growth from net influx of people). During this time, the supply of homes in Dubai has tripled (from 156,000 units to 465,000 units), and the city has enjoyed a boom in asset prices, for a number of reasons, principal amongst them being the investor phenomena (single investors buying multiple properties either for rental yields and/or for holiday home purposes) and the expansion of the city's population as it became a magnet for the MENASA region in terms of employment opportunities.
- The structure of Dubai's real estate market is analogous to that of an hourglass. There is a preponderance of supply at the top and the bottom end of the spectrum, with a paucity in between. If Dubai is going to move towards a dynamic where demand going forward will be indigenously derived (from end users), as is the case in most mature economies, and not emulate the Spanish model (holiday-home phenomena), then it serves to reason that the mid income space is what needs to be catered to.
- The market remains well (if not over) supplied at the top end of the spectrum (both in the villa and the apartment space) and the impact of lower oil prices and stronger dollar will undoubtedly dampen the demand from overseas investors; however domestic demand at the mid end remain inelastic to these macro trends, and developers and investors that capitalize on this will be amply rewarded in the years ahead.

# Table of Contents

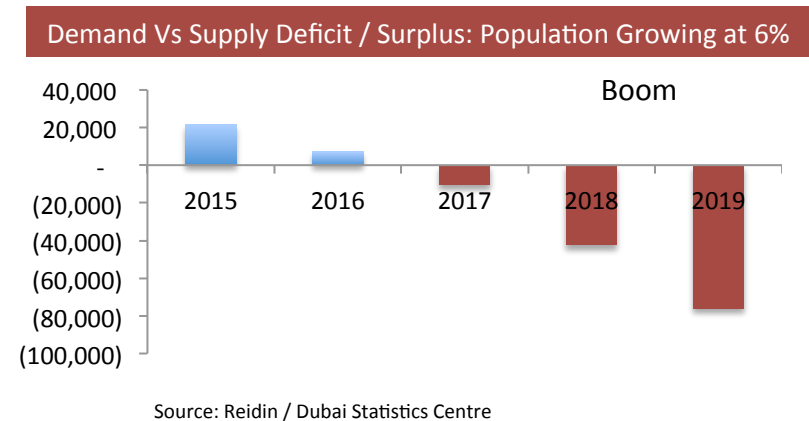
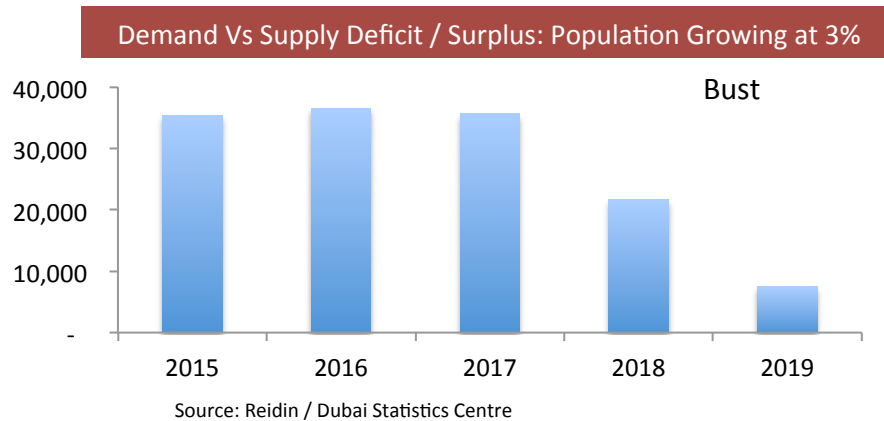
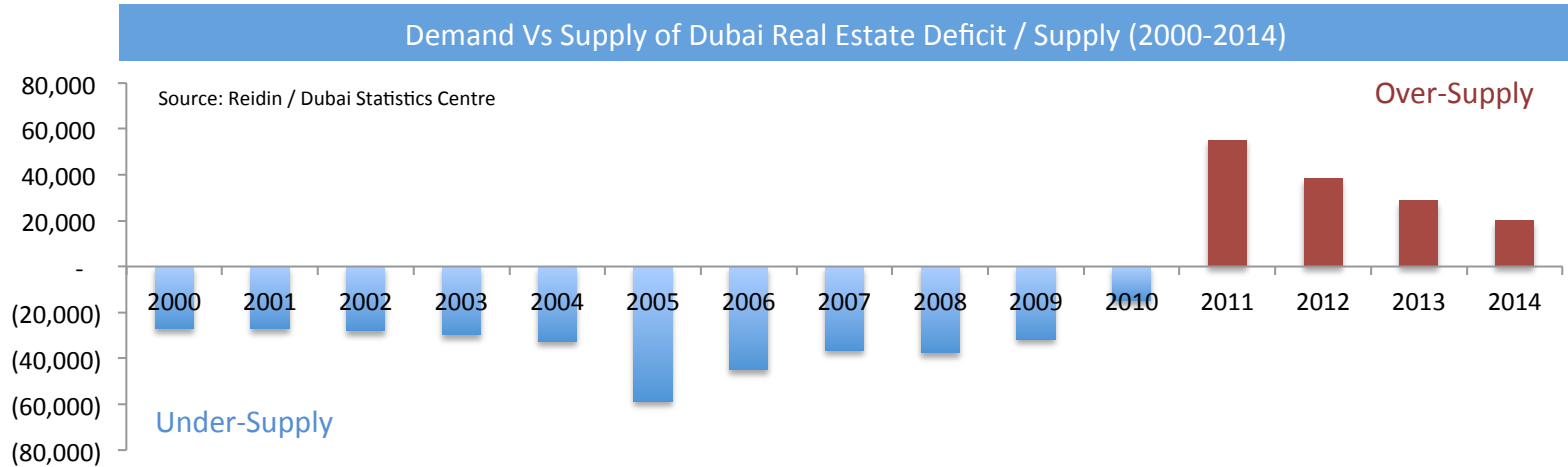
A)	Boom-Bust-ology	4
B)	Dubai Population Dissection	9
C)	Dubai Supply Dynamics	12
D)	Affordability Analysis	15

# Boom-Bust-ology



“The opinions that the price of commodities depends solely on the portion of supply and demand, or demand to supply, has become an axiom in political economy, and has been the source of much error in that science” -  
David Ricardo

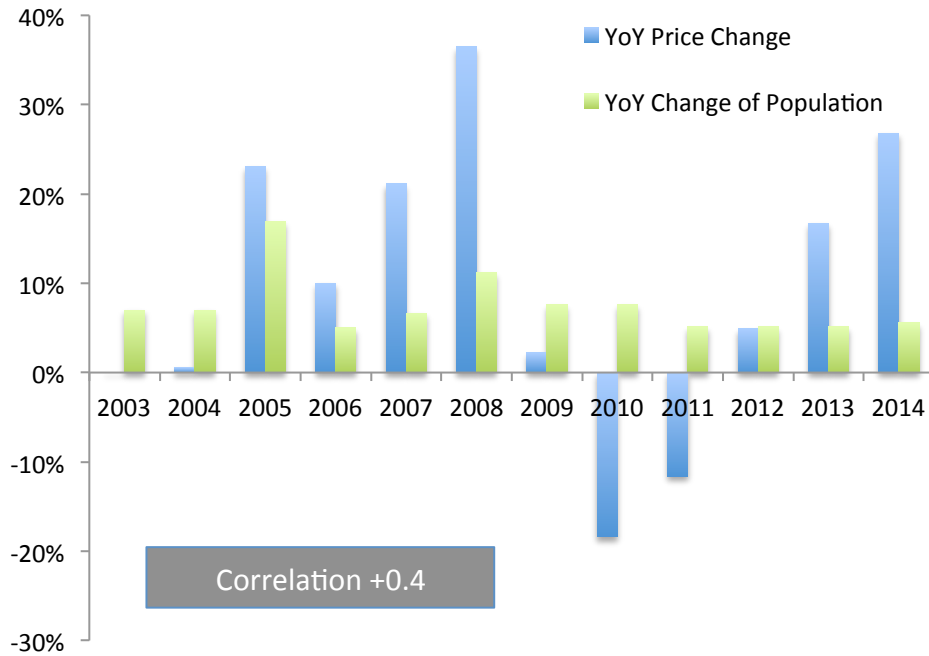
# Boom-Bust: 2015-2019



The above graph clearly illustrates that if Dubai's population continues to grow at 3% per annum, there will be a continued protracted overhang of supply based on the number of projects that have already been announced. However, if the rate of population grows at 6% per annum, then there will continue to be a deficit in terms of housing supply relative to demand, implying the house prices will rise from their current levels.

# Population Growth and Incremental Supply Pivotal to Price Action

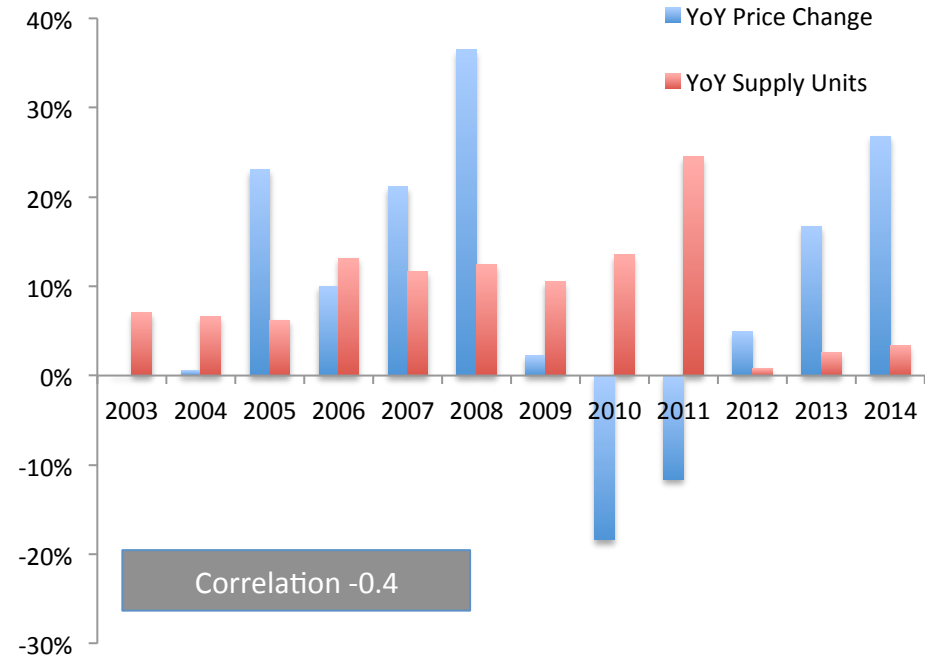
YoY Price Change Vs. YoY Change of Population



Correlation +0.4

Source: Reidin / Dubai Statistics Centre

YoY Price Change Vs. YoY Change of Supply

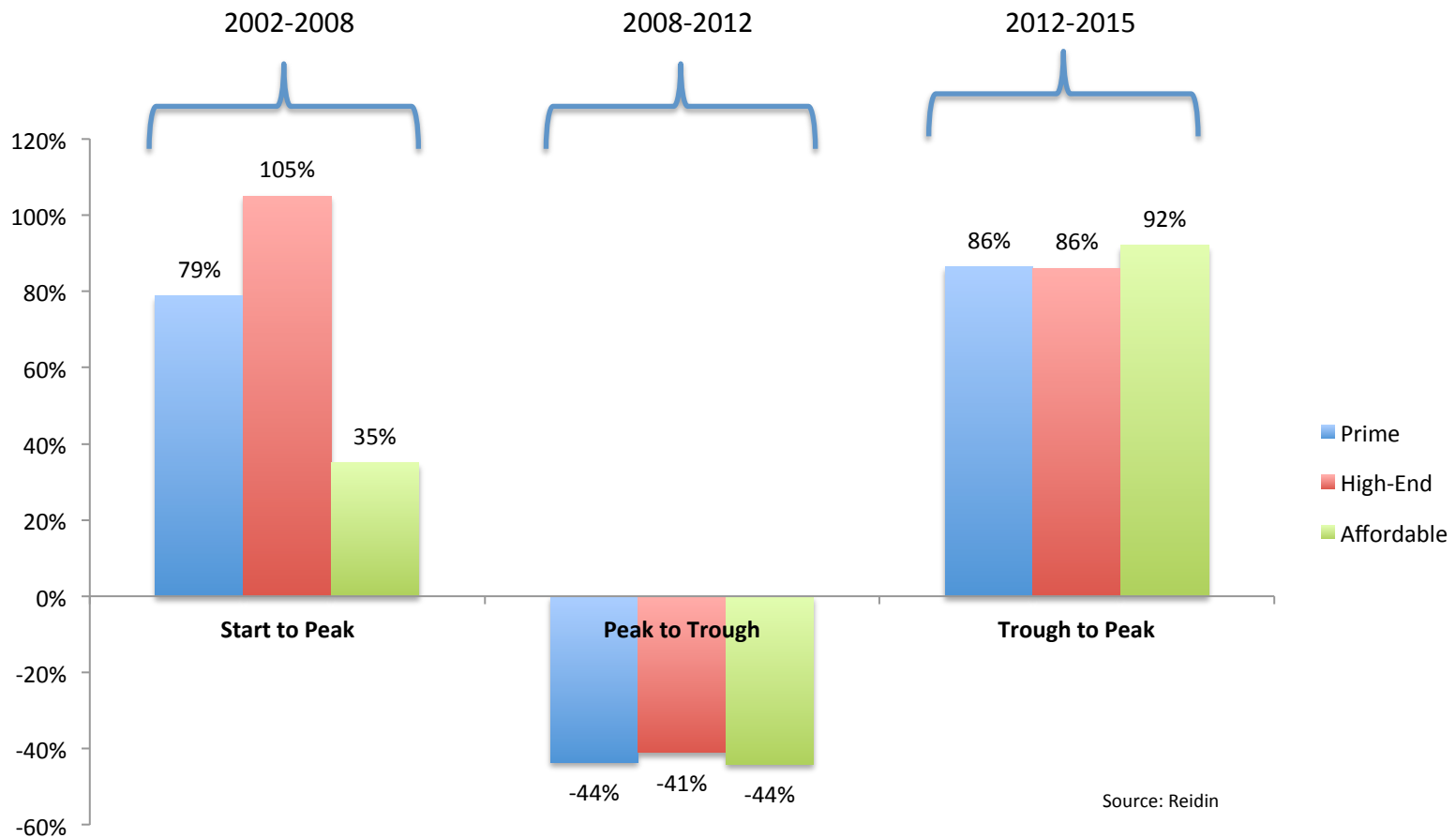


Correlation -0.4

Source: Reidin / Dubai Statistics Centre

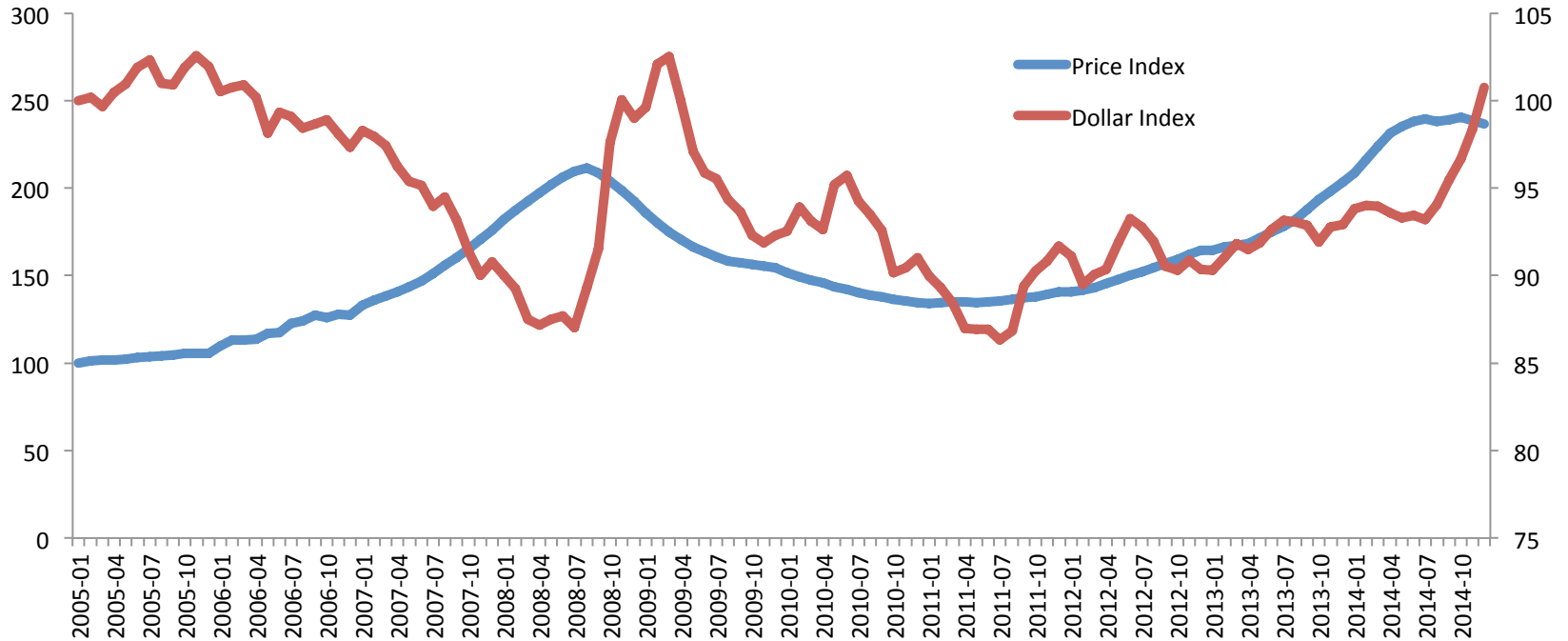
A correlation analysis between the rate of population growth and prices reveals that there is a moderately strong relationship between the two, confirming the view that population growth rates have had a strong impact on price growth. This is further confirmed with supply, which has a mirror relationship in the opposite direction, implying that years where supply has lagged, there has been a positive impact on price.

# Price Appreciation Analysis: Boom and Bust Cycle



A time series analysis of price appreciation of different phases of the boom-bust cycle depicts that in the first phase high-end properties out-performed the affordable segment. This price action resulted in a construction boom, skewed towards the high-end relative to the population demographics. In the second boom we witnessed a stronger price action in affordable housing, as shortages within the segment widened.

# A Strengthening US Dollar has Negative Impact on Property Prices; Correlation -0.3



Source: Reidin / research.stlouisfed.org

For the first time since the freehold phenomenon was introduced in Dubai, the USD has strengthened on a secular basis. Historical correlations indicate a moderately negative correlation of the USD index to aggregate freehold prices, implying that a strengthening USD will have a negative impact on prices going forward. This can be evidenced from the graph above, where a strengthening of the USD index in the first half of 2014 led to a flattening of real estate prices shortly thereafter.

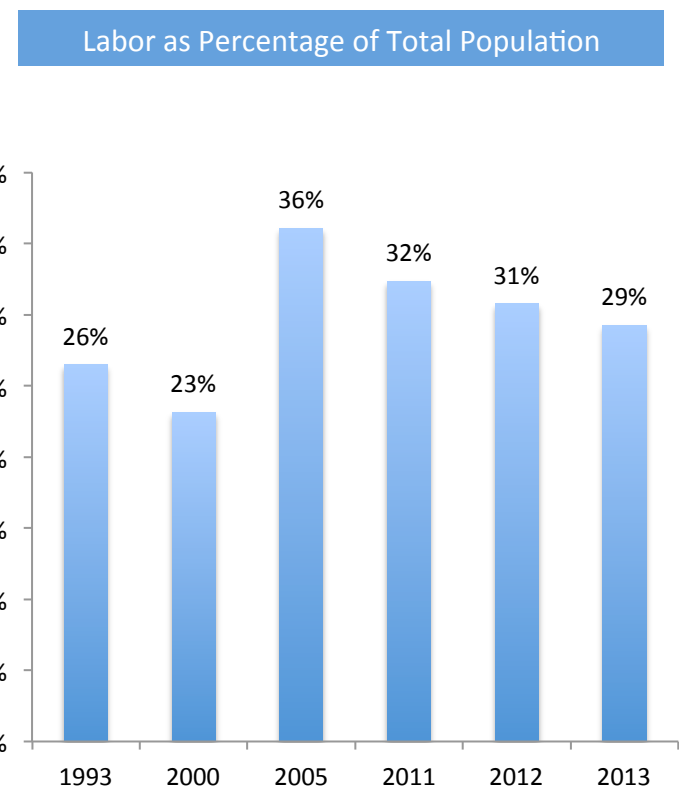
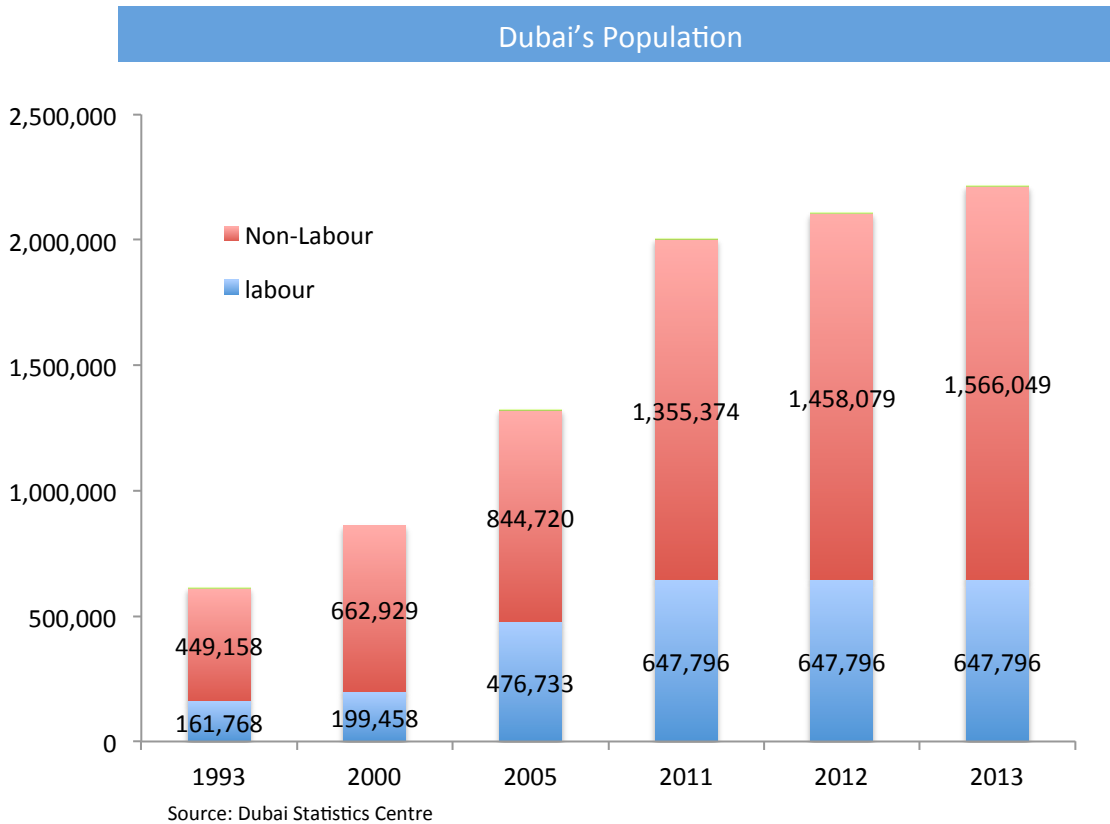


# Dubai Population Dissection



“Numbers are very dangerous, but the main thing about them is that they humble your pride. And that's good.” —  
Saul Bellow

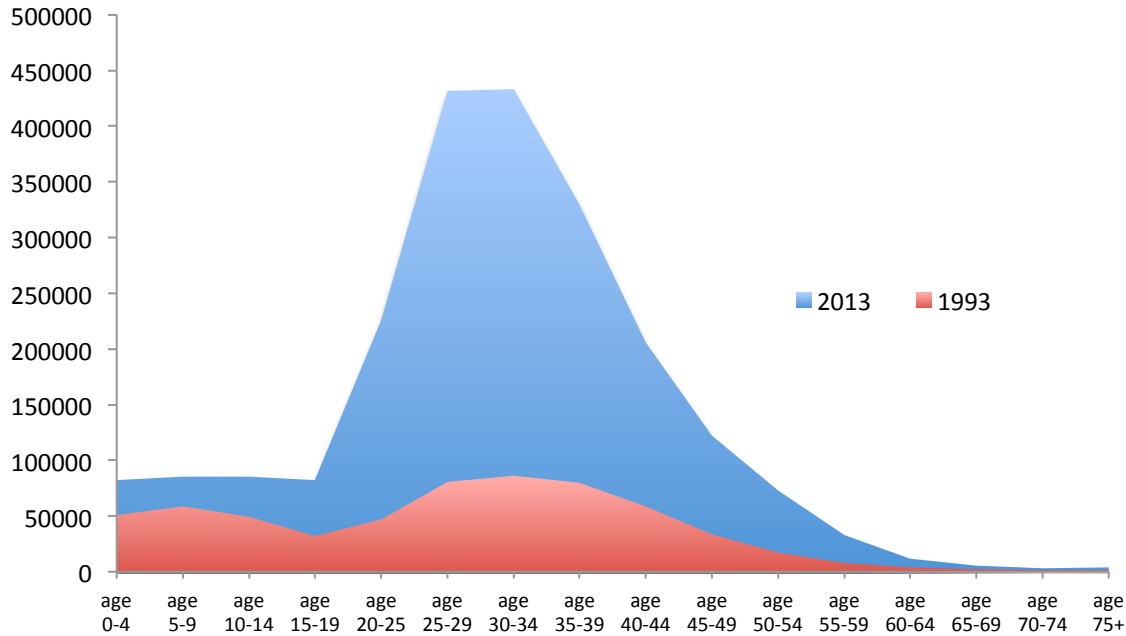
# Dubai's Economy Gravitates Towards a Stronger Middle-Class



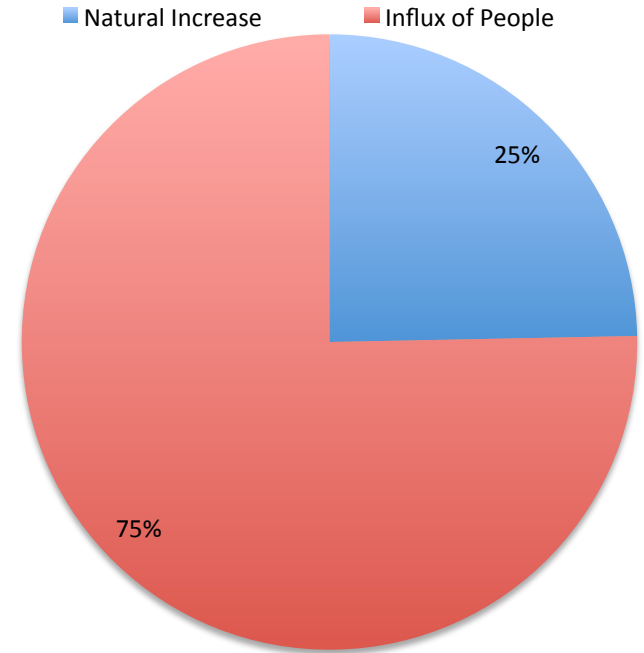
A snapshot of Dubai's population shows that labor accounts for a approximately 36% of the population in 2005, which has decreased by 20% in the last 9 years. The key to Dubai's real-estate success will be the population growth of the non-labor class, which is needed to absorb the up-coming supply in future years.

# Dubai is Heavily dependent on the Job Creation, Compared to a Natural Population Increase

Population Topography: 2013 vs 1993



Natural VS New Population Growth



Source: Dubai Statistics Centre

The structure of Dubai's population in the last 20 years has had a youth bulge, where the majority of the residents are in the age bracket of 19-44. The major reason for this bulge was due to the large number of young people entering the workforce, to support the growth of Dubai's infrastructure. The natural increase of the population only accounts ¼ of the growth, highlighting the importance of job creation to sustain Dubai's growing economy.

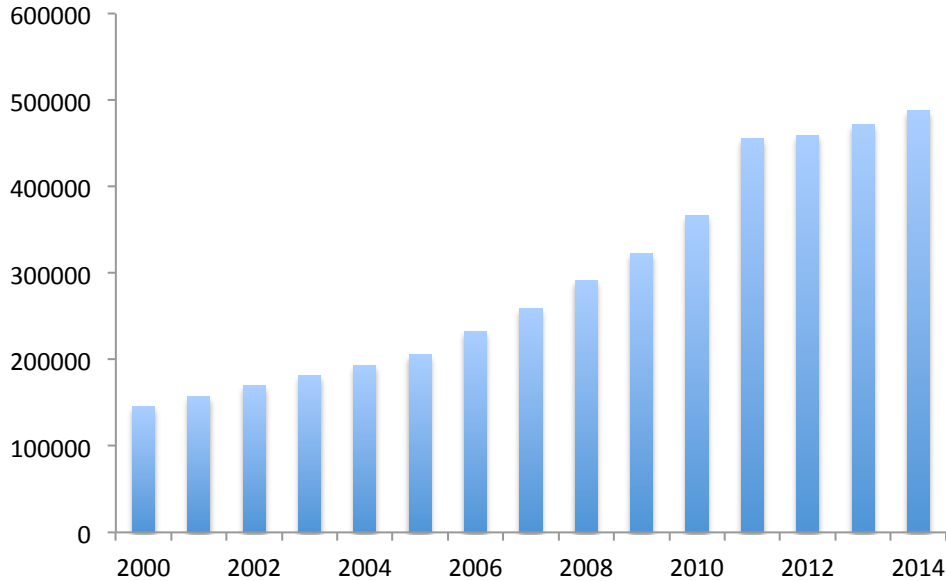
# Dubai Supply Dynamics



“Supply always comes on the heels of demand.” Robert Collier

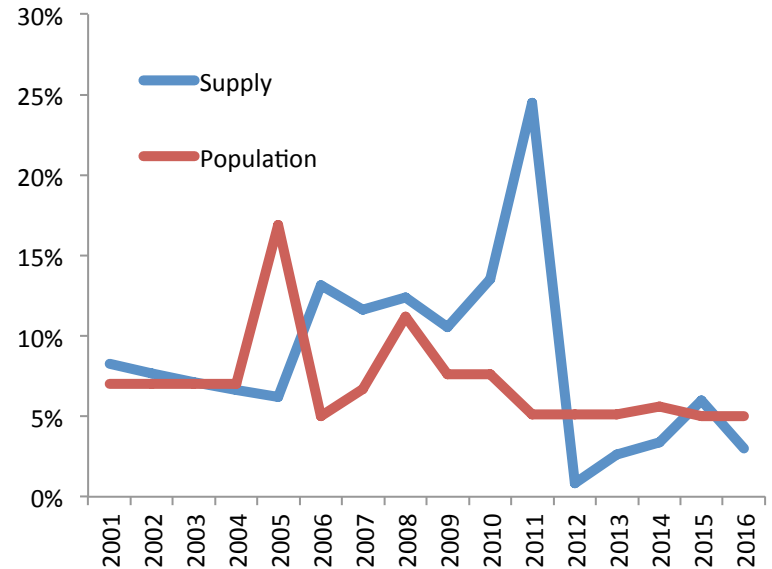
# Overview of Dubai Housing Supply

## Supply of Dubai Housing Units



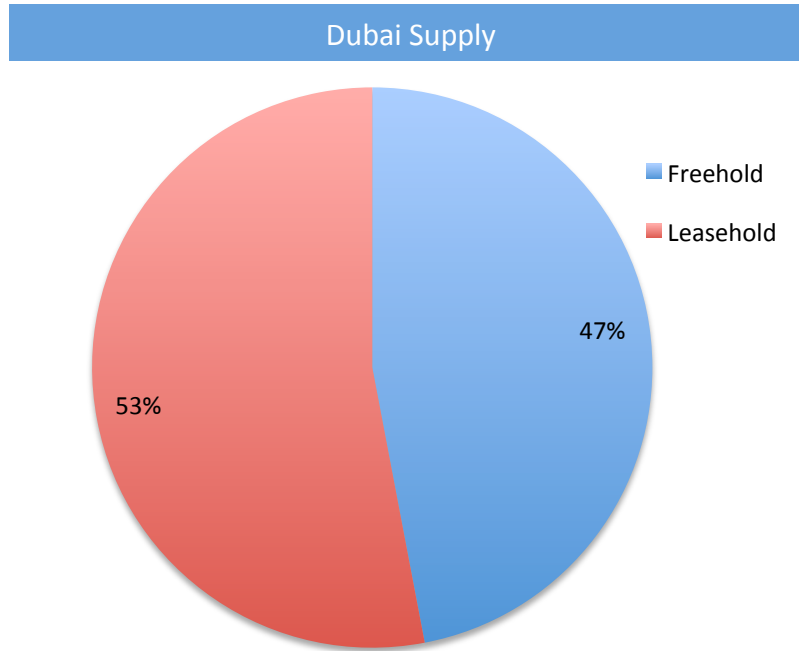
Source: Dubai Statistics Centre

## YoY Change of Supply and Population

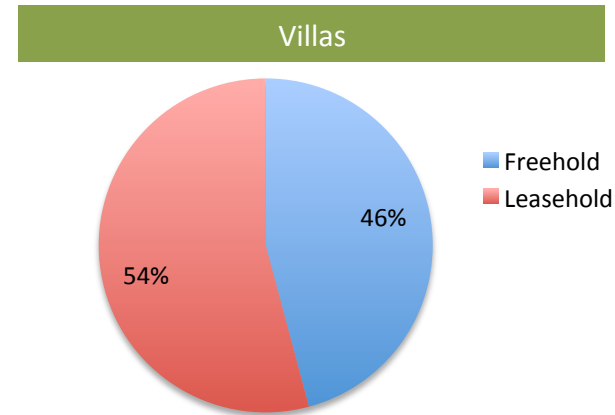
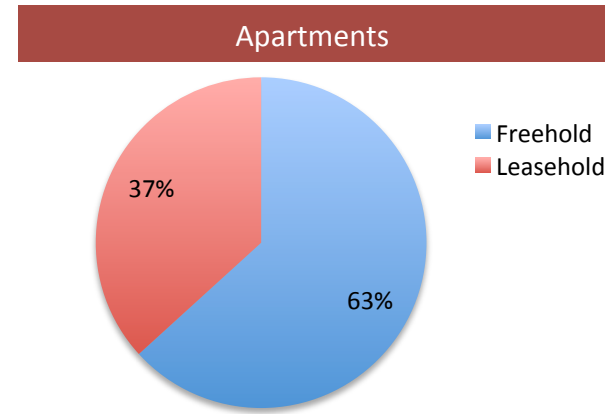


In the last 14 years, Dubai housing supply has more than tripled and is expected to grow at 5% for the next two years. It is apparent that there has been a smoothening of supply in terms of delivery, and to the extent that this remains the case, a steady state population growth of 4-5% per annum will smooth price fluctuations ensuring that the market remains balanced on a holistic level.

# Freehold Vs. Leasehold Supply



Source: Reidin / Dubai Statistics Centre



A dissection of current supply reveals that freehold units account for nearly half of overall supply. Freehold units dominate the apartments space, where as horizontal living is skewed towards leasehold areas. The bulk of new supply being injected into the market is in freehold areas, catering to the expanding population, which is driven by the influx of expats.

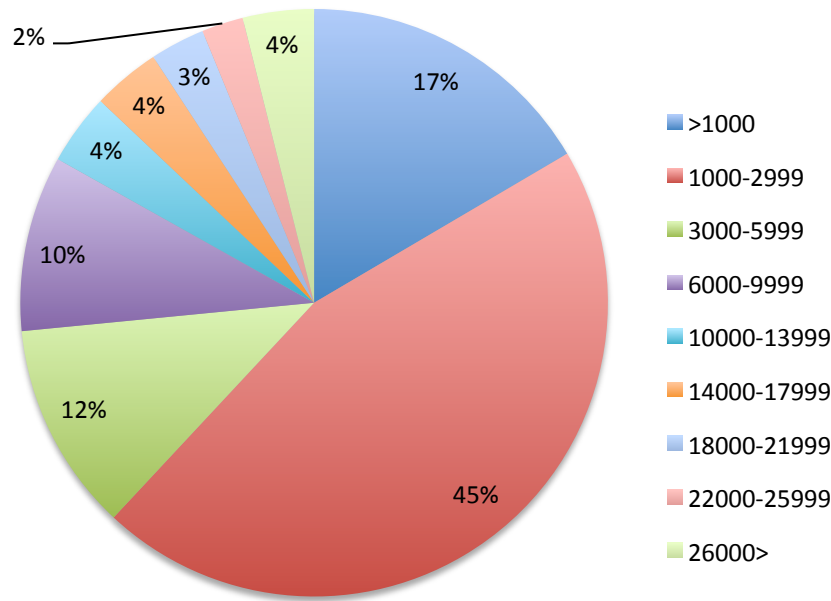
# Affordability Analysis



“Need is not demand. Effective economic demand requires not merely need but corresponding purchasing power.”  
— Henry Hazlitt

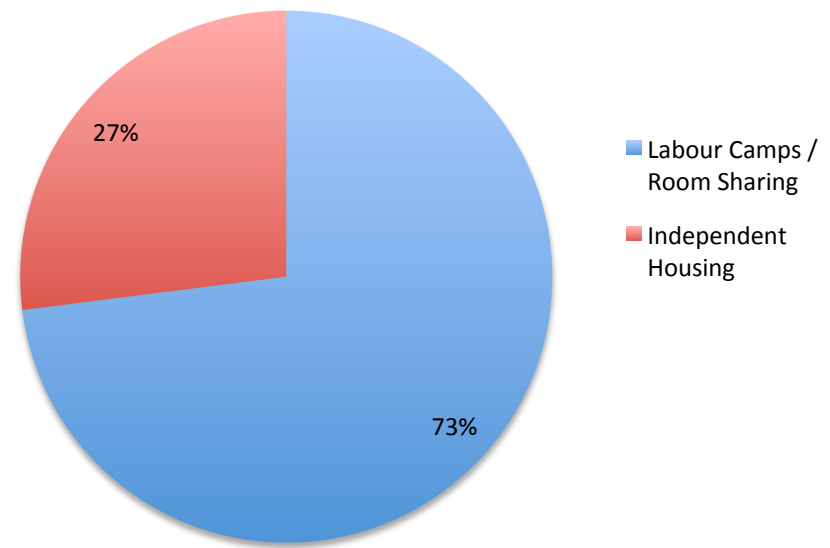
# Income Distribution Skewed Towards Affordable Housing

Monthly Salary Range of the Working Population



Source: Dubai Statistics Centre

Where do the Working People Live?

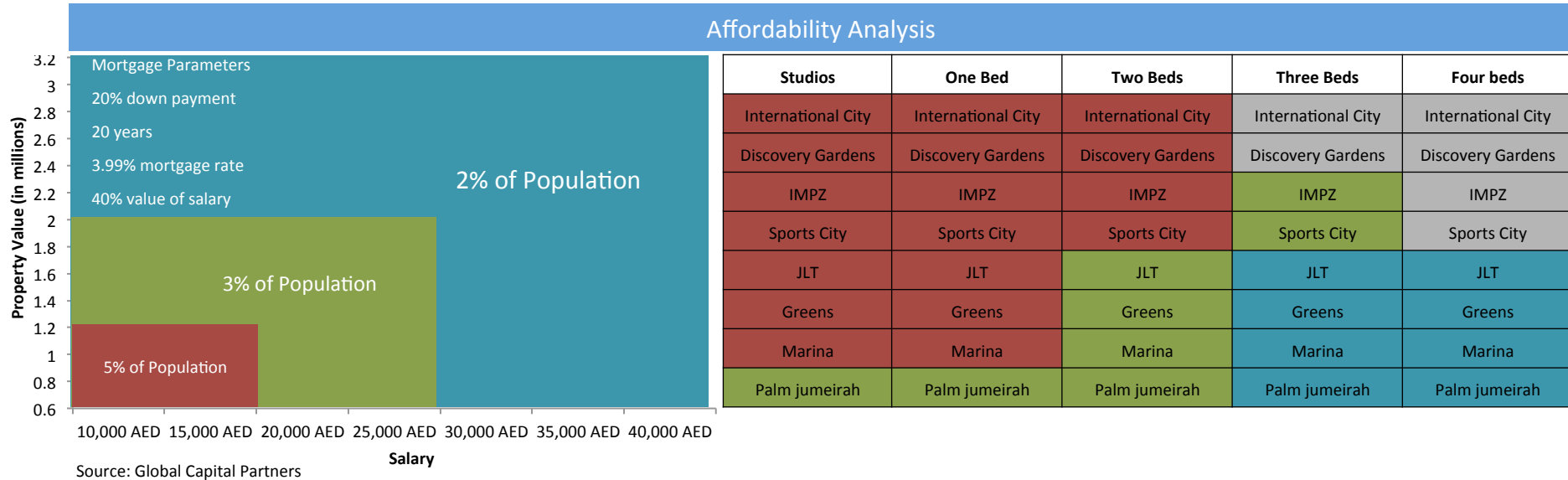


Source: Global Capital Partners

Given the income distribution of the population, 73% of residents lives in labor camps and room sharing, whereas 27% can afford to rent units independently. This landscape highlights the importance of affordable housing in Dubai's infrastructure in coming years.



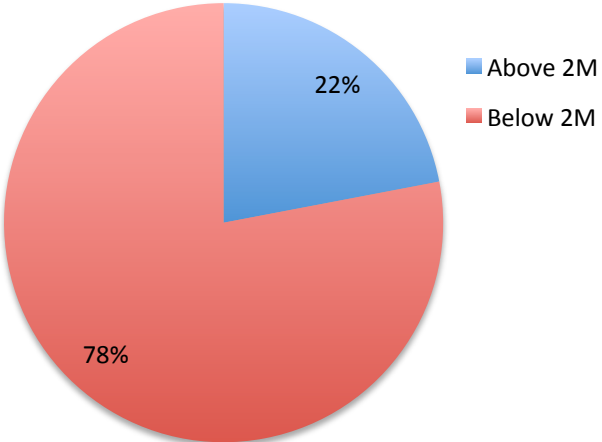
# An Affordability Analysis: Where Can we Buy?



An affordability analysis highlights that 10% of the working population will be eligible for a home loan on their residence. The major beneficiaries of this dynamics will be IMPZ and Sports City. Only 2% of the population can either afford to rent or buy properties above 2 million, implying that within this segment there is a strong presence of 'vacation home buyers' or where the ultra-high net worth own multiple properties as part of their asset portfolio.

# 22% of the Supply is only Accessible to 2% of the Population

Freehold Supply Property Value



Boom Bust

	2014	2015-2016
<b>Supply</b>	54,011	57,927
<b>Population</b>	29,517	32,469
<b>Surplus / Deficit (Units)</b>	+ 24,494	+ 25,458

Source: Reidin

A segmentation analysis of property by value, shows that 22% of freehold supply is above 2 million, which is only accessible by 2% of the population. The excess supply in the prime properties segment is aimed at the buyers of vacation homes or trophy properties for investors.

# Conclusions

*Population growth and supply change play a pivotal role in influencing price trends.*

*22% of the Supply is only accessible to 2% of the population*

## Boom-Bust-ology

Supply and population growth rates have a moderately strong correlation on price trends. The increase in units being injected into the housing stock will have adverse effect on prices, whereas a rise in population growth rates have the opposite.

A boom-bust scenario shows that if Dubai's population grows at 3%, the overhang of supply will lead to subdued prices; however if it grows at 6%, prices are expected to rise

## Dubai Supply Dynamics

In the last 14 years Dubai's housing stock has more than tripled, with supply expected to grow at 5% over the next couple of years.

A dissection of Dubai's supply shows that nearly half of the housing supply is in freehold areas. As new mega projects begin to roll out (i.e MBR City, Creek Harbor) the supply will begin to skew away from leasehold areas, catering to the influx of expatriates.

## Dubai Population Dissection

Dubai's labor population (as a percentage of overall population) has decreased by 20% in the last 9 years, accounting for 29% of the entire population.

Dubai's Population growth is still heavily dependent on job creation, as 75% is from an influx of expats, whereas 25% is endogenous.

This phenomenon has resulted in youth bulge in the demographics making home-ownership a strong demand driver for the real estate market

## Dubai: Affordability Analysis

The income distribution of Dubai's working class suggest that 73% of the population is living in shared rooms or labor camps. The balance 27% can afford to live in independent units

An affordability analysis highlights that 10% of the working population will be eligible for a home loan on their residence, where only 2% can afford properties above 2 million of value



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<a href="#">Dubai: The Hunt for Yields</a>	REIDIN - UNITAS Real Estate Market Reports	15-Dec-14
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<a href="#">Home Ownership: Dubai's Road to Prosperity 2013</a>	REIDIN - UNITAS Real Estate Market Reports	12-Mar-13

## 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

