

STRICTLY CONFIDENTIAL



Dollars and Sense

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Executive Summary

- After a decade of finding bargains in real estate markets against the backdrop of a secular weak US Dollar, as well as a regime of declining interest rates, foreign investors in the last year have faced the prospect of sharply higher housing prices in Dubai, as their nations' currencies have fallen against the US dollar. That could reshape certain global housing markets going forward (explaining in part why global real estate market returns have had significantly higher correlations in the past two years) as the baton shifts from an investor oriented market to that of an end user driven market.
- The strength of the US Dollar since 2014 has had significant implications for the attractiveness of Dubai (and even the US housing market) for foreign investors, and have particularly affected markets that have been dominated by foreign investment flows.
- These macro variables have been the predominant factor behind rising correlations in the world real estate markets, rising from a decade wide correlation of 0.29 to 0.65 in the last two years, as a financial regime (in the form of change has caught global investors off guard.
- Against the backdrop of lower oil prices, and a rising dollar and interest rates, speculative behavior will likely continue to subside, and transactional activity will remain subdued. This is positive news for the end user as it allows for the allocation of capital formation to an asset class that has historically been for the purposes of housing and longer term stability.

Table of Contents

A) Real Estate Markets and Dollar Strength

A) Property Markets Falling in Tandem

A) Russian Real Estate and the Ruble

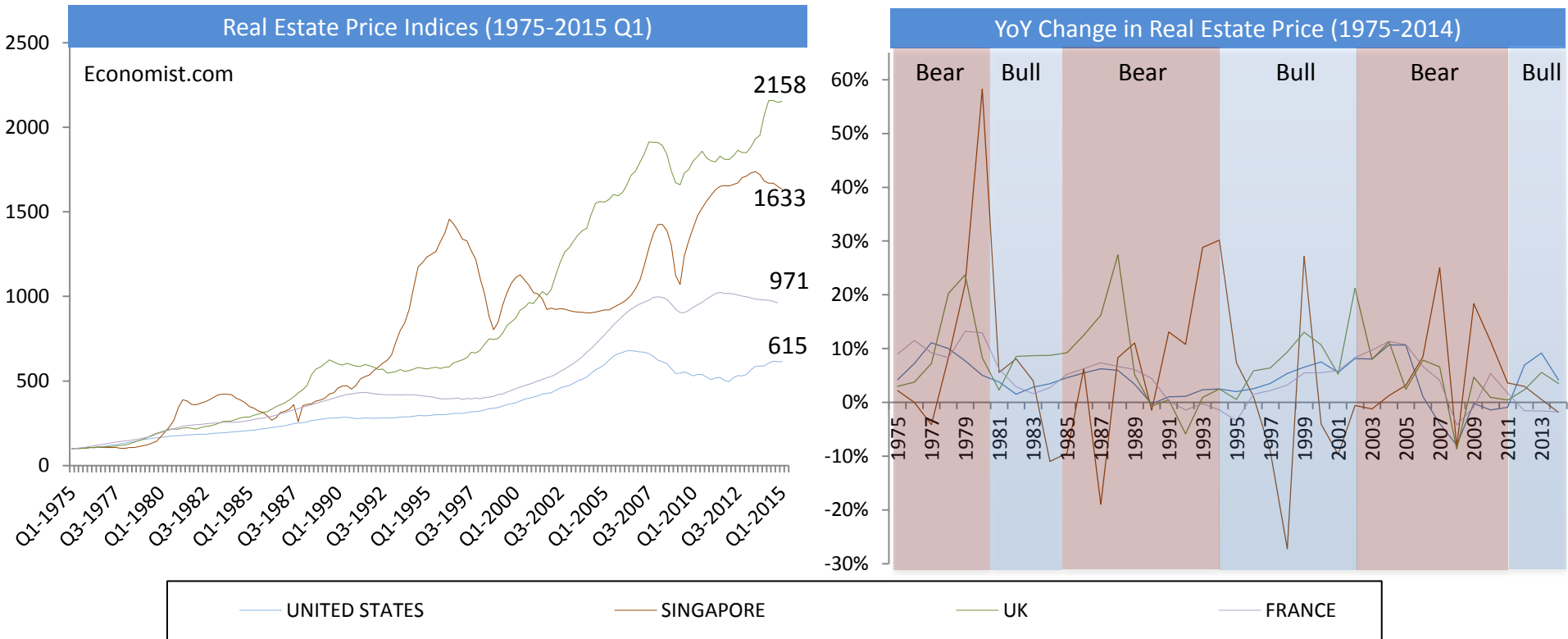
A) Conclusion

Real Estate and Dollar Strength



“Data, I think, is one of the most powerful mechanisms for telling stories. I take a huge pile of data and I try to get it to tell stories” - Steven Levitt

Real Estate Markets and the Dollar Cycles



The above charts depict the overall price appreciation of major developed real estate markets since 1975 revealing that the UK and Singapore have been the best performers in their respective base currencies. Perhaps more interestingly, when a year over year price change graph is examined, we find that periods of highest annual performance coincide with cycles where the US dollar has been depreciating with the reverse being true when the dollar was appreciating.

Real Estate Markets and Dollar Cycles

	Dollar Index	UNITED STATES	SINGAPORE	UK	FRANCE
Dollar Bull (Average Increase 28%)					
Q1-1980 TO Q1-1985	35%	23%	99%	41%	38%
Q1-1995 TO Q1-2002	30%	38%	-24%	61%	25%
Q2-2011 TO Q1-2014	36%	20%	3%	18%	-4%
Dollar Bear (Average Increase 61%)					
Q2-1985 TO Q4-1994	-44%	36%	143%	71%	43%
Q1-2002 TO Q1-2008	-41%	18%	59%	57%	65%

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When we examine the US Dollar cycles, it becomes evident that the strength and/or weakness of the currency plays a critical role in the annual returns of the respective real estate markets. In times of secular USD Strength, the real estate markets of the countries examined systematically underperform periods where the USD has gone through a bear cycle. Whilst there have been other factors that contribute to the under/over performance in each of these periods, it is clear that USD strength is a major variable in the contribution of returns of the sector.

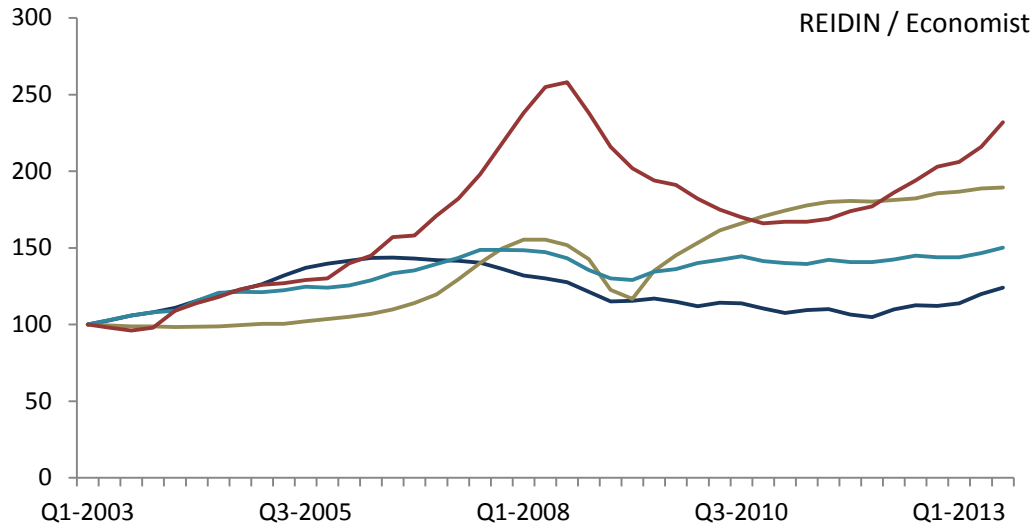
Dubai and Other Real Estate Markets



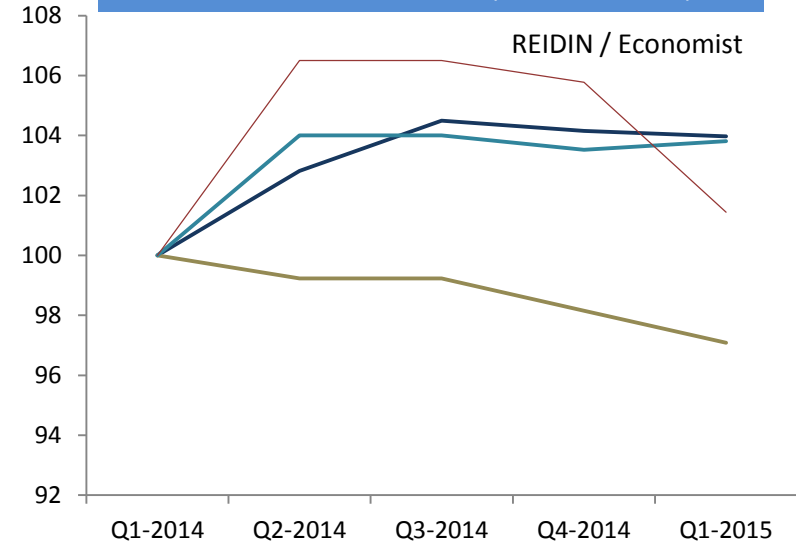
“One of the first things taught in introductory statistics textbooks is that correlation is not causation. It is also one of the first things forgotten.” — Thomas Sowell

Real Estate Markets Falling in Tandem

Real Estate Price Indices (2003-2014)



Real Estate Price Indices (2014-2015 Q1)



— UNITED STATES

— SINGAPORE

— UK

— DUBAI

Since the advent of the freehold phenomena in Dubai, it has been the strongest performer amongst observed markets. However, this has been against the backdrop of a secular USD bear cycle. (USD weakness).

In the last two years, this has changed, contributing to the softness of the domestic real estate markets. Other observed markets such as Singapore have also underperformed. Both the US and the UK real estate markets have flat lined in response to USD strength.

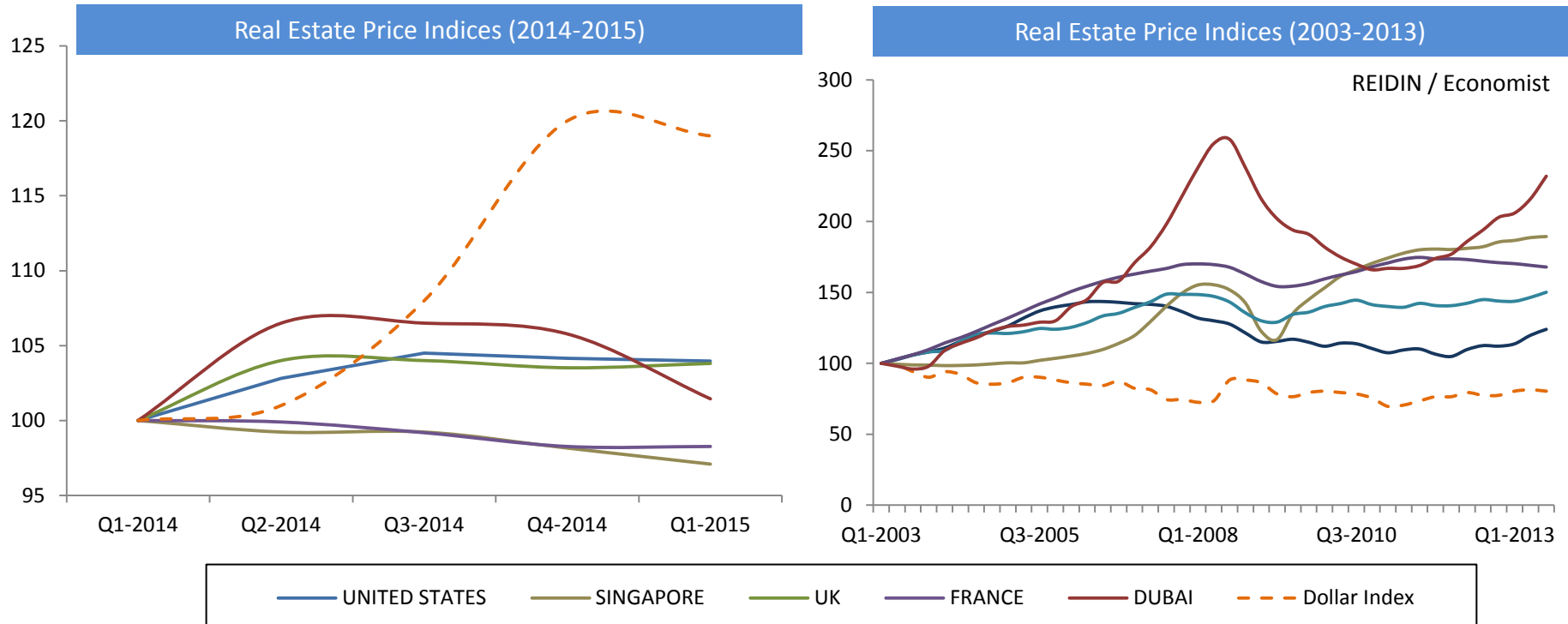
Price Correlations of Dubai to Other World Markets

	Q1-2014 TO Q1-2015	Q1-2002 TO Q4-2013
UNITED STATES	0.88	0.23
SINGAPORE	0.21	0.28
UK	0.86	0.35
AVG Correlation	0.65	0.29

An analysis between price actions of Dubai and other real estate markets reveals a stronger correlation in the last 12 months compared to the last decade. The strength of the correlation has more than doubled in the most recent observed period.

This has largely been due to the real estate markets becoming more sensitive to global investment flows, and we opine that the USD strength has contributed to this increasing correlation as global investors have taken pause and reassessed valuations in light of the recent strength.

Dollar Index has an Inverse Relationship with Property Markets



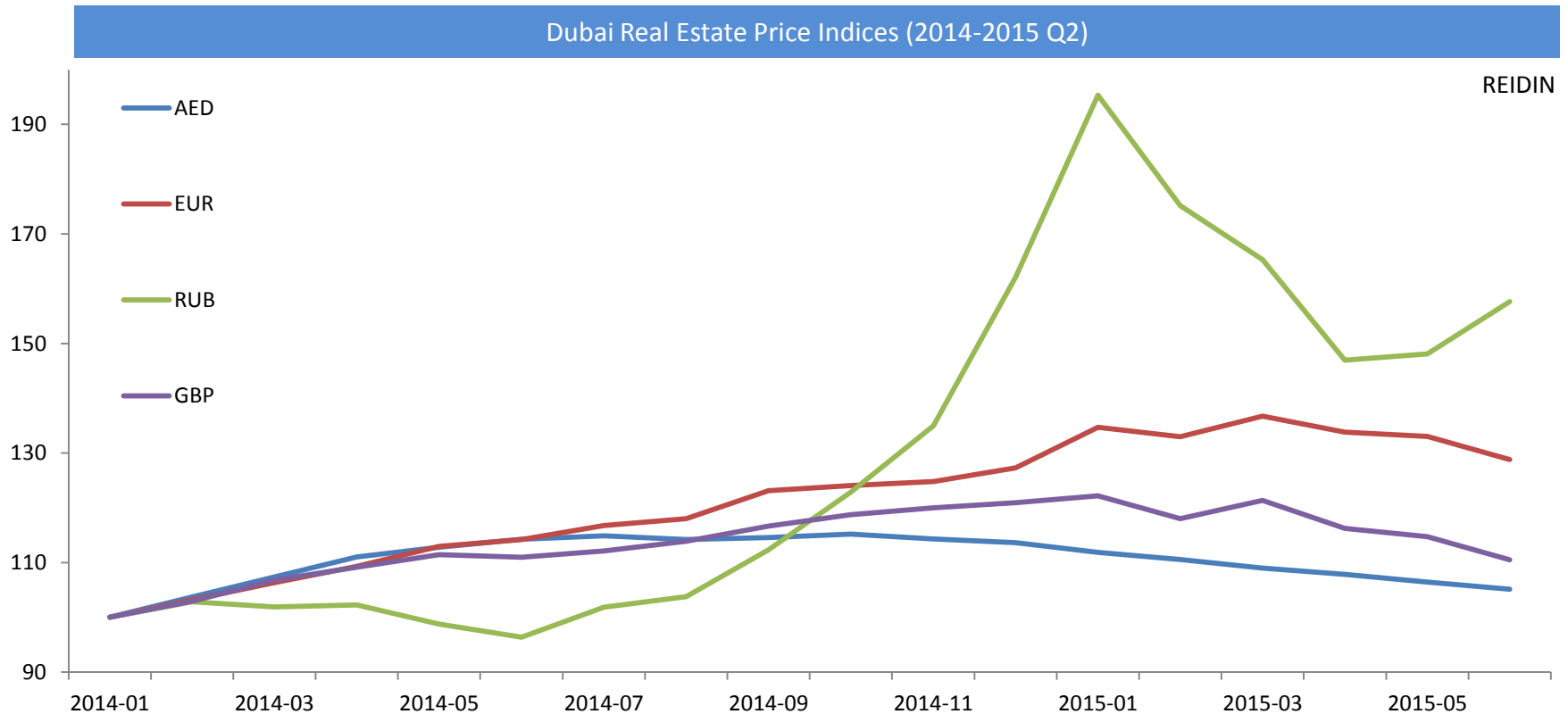
A comparison between a time of dollar weakness (2003-2014) versus dollar strength (2014-Present) highlights the contrastive effects on real estate markets in the last decade. During the time of a subdued dollar real estate markets have rallied, whereas in the last 12 months prices have begun to trend downwards in response to USD strength

Real Estate and Currencies



“Sometimes it is necessary to be lonely in order to prove that you are right” - Vladimir Putin

Dubai Property Prices in Other Currencies



An analysis of Dubai real estate markets relative to other currencies highlights the impact fluctuations have on returns depending on your base unit. For example, at the higher end of the market, which has been historically reliant on foreign inflows, the price of a high end villa in blue ribbon communities such as Palm jumeirah, Emirates hills or downtown Dubai, prices have appreciated by 60% in the last 12 months in Ruble terms, even as prices have registered declines of as much as 20% in UAE dirhams.

Conclusions

Periods of highest annual performance of real estate markets coincide with cycles where the US dollar has been depreciating with the reverse being true when the dollar was appreciating

Since the advent of the freehold phenomena in Dubai, it has been the strongest performer amongst observed markets. However, this has been against the backdrop of a secular USD bear cycle.

Real Estate and Dollar Strength

There has been a long-standing relationship between real-estate price cycles and dollar strength. In times of a weak dollar market, real estate prices have had greater rates of appreciation, when compared to that of a strong dollar.

Whilst there have been several factors that contribute to the under/over performance in each of these periods, it is clear that USD strength is a major variable in the contribution of returns of the sector.

Real Estate and Currencies

As Dubai real estate prices continue to trend lower, investors whose base currency has not been the USD are still enjoying healthy returns. Whereas in the last 18 months, investors whose base unit is the USD dollar returns are virtually flat, Rubble based investors have seen prices in Dubai appreciate by more than 50%

The dollar rally has also acted as a barrier of entry for new international investors from entering the market, as property prices are much more expensive in their base currency; this has led to the fall in transactional activity.

Dubai and Other Real Estate Markets

An analysis of several global real estate markets (US, UK, France, and Singapore) against Dubai since the inception of freehold in 2002, reveals that Dubai has been the best performer

However, in the last 12 months prices across several real estate markets have begun to trend downwards in response to USD strength

We opine that this will trend will continue for the foreseeable period.

Conclusion

The strength of the US Dollar since 2014 has had significant implications for the attractiveness of Dubai (and even the US housing market) for foreign investors, and have particularly affected markets that have been dominated by foreign investment flows.

Developers have responded by offering an array of incentives via payment plans to cater to both the foreign investor base, as well as attract potential end users from the domestic market.



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Research Database

Title	Report	Date
The Curious Case of Payment Plans	REIDIN - UNITAS Real Estate Market Reports	2-Aug-15
Dubai: The Signal and the Noise	REIDIN - UNITAS Real Estate Market Reports	5-Jul-15
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Dubai: The Paradox of Affordable Housing	REIDIN - UNITAS Real Estate Market Reports	21-Jul-14
Dubai: A Tale of Two Markets	REIDIN - UNITAS Real Estate Market Reports	17-Jun-14

Research Database

Title	Report	Date
Dubai: The Trophy Buying Phenomena	REIDIN - UNITAS Real Estate Market Reports	22-May-14
Dubai: The Road Ahead	REIDIN - UNITAS Real Estate Market Reports	5-May-14
Dubai: Buy Land Where the City Ends	REIDIN - UNITAS Real Estate Market Reports	7-Apr-14
Dubai: A Closer Look into 2013	REIDIN - UNITAS Real Estate Market Reports	13-Feb-14
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Dubai: If You Build It They Will Come	REIDIN - UNITAS Real Estate Market Reports	30-Sep-13
Dubai: The City is Built Upon it's Commerce	REIDIN - UNITAS Real Estate Market Reports	11-Apr-13
Home Ownership: Dubai's Road to Prosperity	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



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