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Dubai: The Real Estate Value Guide

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REIDIN Emerging Markets Real Estate Information

GCP GLOBAL CAPITAL PARTNERS

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Executive Summary

1. A number of forecasts made have borne fruit, indicating the shift in Dubai's economic and real estate topography as the market enters a phase known as the "New Normal". This calls into question as to whether Dubai is embarking on a fresh upward price cycle having scaled the peaks of 2008. In particular, the mid income segment has outperformed the higher end of the market in the residential sphere, and free zone offices have done comparably better than those domiciled in the DED.

2. A detailed valuation analysis of the market metrics reveal that these trends are expected to continue. End users are likely to dominate the stable community sectors (some of which may be relatively overpriced), and on a relative standpoint, the analysis reveals that apartment units (particularly in the affordable range) are expected to outperform the villa segment.

3. The visibility of upcoming supply remains opaque; what is apparent however, is that supply remains concentrated at the higher end of the price range, opening up opportunities at the lower end of the spectrum. As the build phase becomes increasingly clear in the coming months, we expect that this gap will be filled (recent evidence indicates that this process is already underway as evidenced by recent announcements by Tasweek offering the most economically priced townhouses in the freehold space). We opine that this trend will continue.

4. Yields are expected to be at the forefront of expected returns, especially in an environment of rising rates as expected by the vast majority of economists in 2015 a relative rental yield analysis, (especially in light of the expected job creation engine that is currently in force in Dubai) reinforces our prediction of apartments outperforming villas on a relative basis in the next 12-18 months. In particular, there appears to be a shortage in the 2-3 bedroom segment.

Past Prediction Analysis

"However beautiful the strategy, you should occasionally look at the results" - Winston Churchill

"Dubai's Road to Prosperity" - Feb 2013

Prediction

"We believe that prices in Jumeirah Lake Towers will increasingly outperform the Dubai Marina as mean reversion takes effect"

Result

Community	Price Appreciation (Jan 2013-July 2014)
JLT	60%
Dubai Marina	56%

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"Emirates Living area appears to be undervalued on a relative basis to Arabian Ranches"

Community	Price Appreciation (Jan 2013-July 2014)
Springs / Meadows	21%
Arabian Ranches	19%

reidin.com

"Dubai: The City is Built Upon It's Commerce" – Mar 2013

Prediction

"The low levels of new supply introduced in the Free Zone markets coupled with their superior growth rate will be the catalyst in driving prices up in these areas"

Result

Community	Price Appreciation (Jan 2013-July 2014)
JLT (Free zone)	68%
Business Bay (DED)	56%

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"Dubai: If you Build it; They Will Come" - Sep 2013

Prediction

"We believe that the overall rise in Dubai rents have resulted in migratory effect relocating people from the Sheikh Zayed Road to more affordable areas on Muhammad bin Zayed Road. We expect to see a higher rate of homeownership in these areas"

"Communities such as Sports City, Dubai Silicon Oasis, and Jumeriah Village will start to gain momentum as their infrastructure near completion thus converging with the more established communities, whilst prices in Jumeirah Golf Estates appeared to have overshot to the upside, relative to the infrastructure development."

Result

Avg No. Monthly Mortgages	Jan-Oct 2013	Nov-July 2013	% Increase
Sports City	13	13	-
Motor City	20	30	50%
JVC	11	18	63%

reidin.com

Community	Price Appreciation (Jan 2013-July 2014)
Dubai (City-wide)	**50%**
Sports City	44%
DSO	58%
JVC	60%
Jumeirah Golf Estates	18%

reidin.com

"Dubai: A Closer Look into 2013" - Feb 2014

Prediction

"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"

Result

Community	Price Appreciation (Jan 2013-July 2014)
Apartments	50%
Villas	28%

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"Dubai: Buy Land Where the City Ends" - Mar 2014

Prediction

"Similar patterns can be witnessed in Dubai as well; land prices outperformed Residential units by as much as 140% in the last 10 years. With the increased emphasis on "urbanization", the pressure to develop land will only accelerate, leading to further upward pressure on land prices as Dubai marches forward to achieving its goal of having 20 million tourists and a population of 3.5 million"

Result

Community	Price Appreciation (Jan 2014-July 2014)
Residential - City Wide	16%
Land Price – City Wide	24%

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"Dubai: The Trophy Buying Phenomena" – Apr 2014

Prediction

"This mismatch in supply dynamics has lead to the mid-income housing to have superior growth rates relative to the rest of the segments in the last 6 months. Until incremental supply is not added we opine that the mid-income segment will continue to outpace the trophy and high-income communities in terms of growth rates. The major beneficiaries of this price-action will be DSO, International City, IMPZ, Sports City and Discovery Gardens"

Result

	Rank	Community	YTD Price Growth	YTD Rental Return	Total Return YTD
Affordable Housing	1	International City	20%	5%	25%
Affordable Housing	2	Sports City	18%	4%	22%
Trophy Properties	3	Palm Jumeirah	19%	2%	21%
Trophy Properties	4	Downtown	9%	3%	12%

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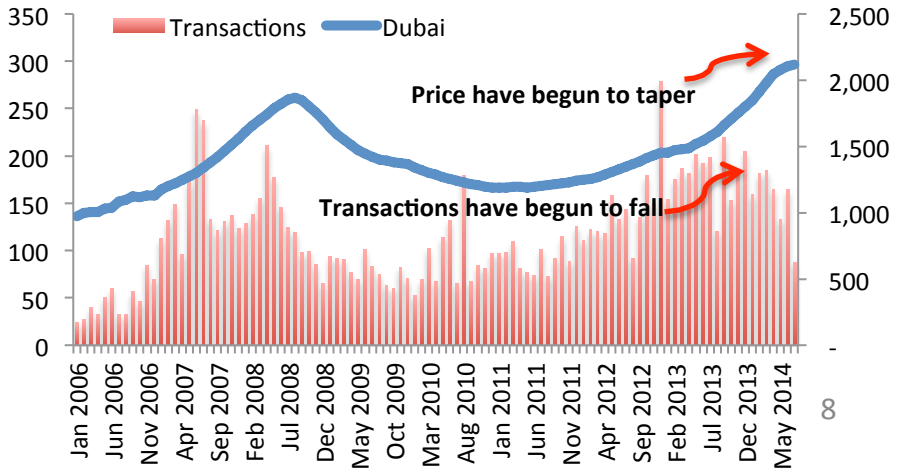
"Dubai: The Road Ahead" - May 2014

Prediction

"Prices have empirically tended to follow transactional activity with a lag, implying that the latter has been a leading indicator. Dubai has a moderately strong correlation of +0.52 between the two variables"

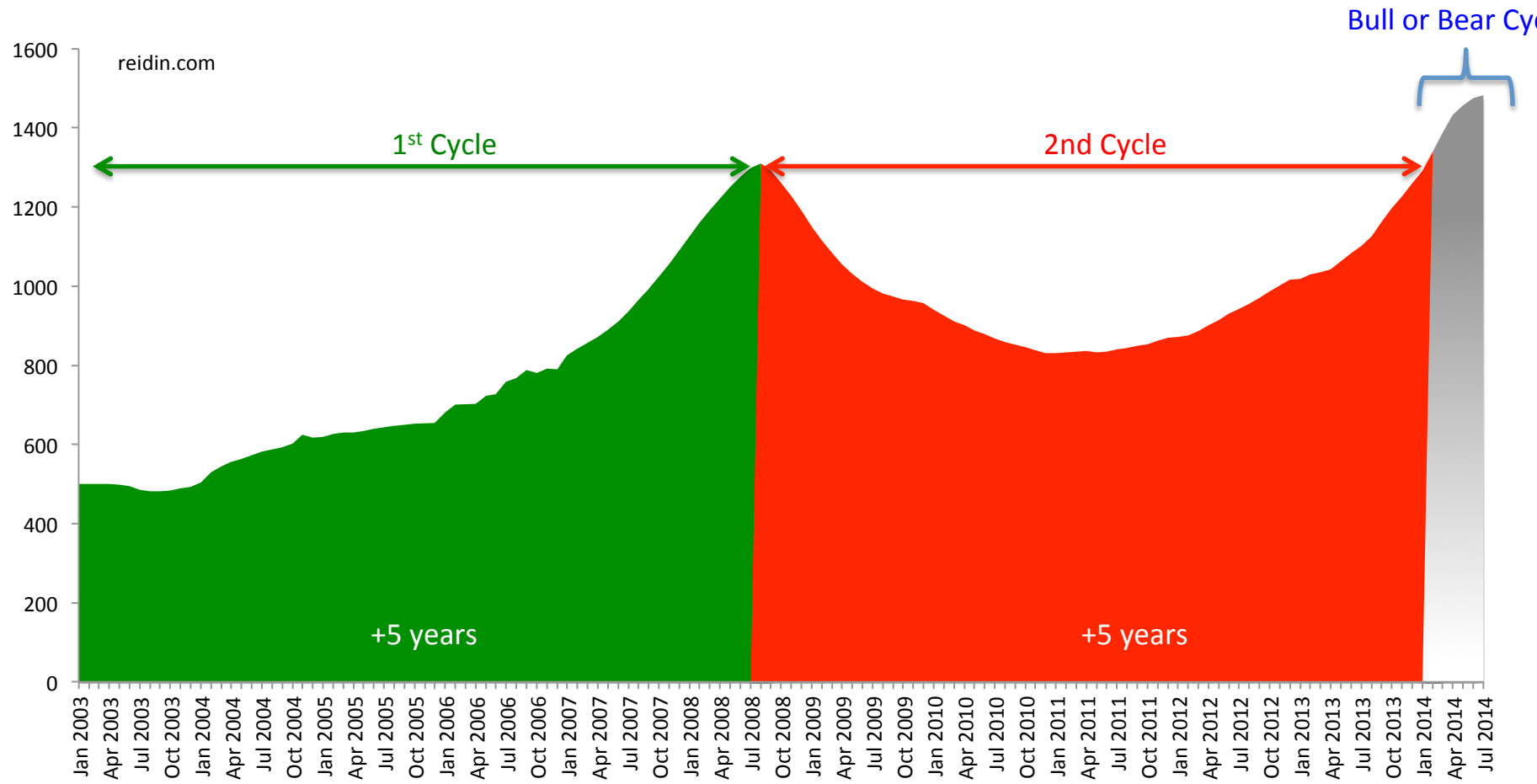
Result



Q2 Performance Quarterly Update

"Performance stands out like a ton of diamonds. Non-performance can always be explained away" - Harold S Geneen

Dubai Real-Estate Cycle



Since the creation of freehold in 2002 the Dubai real-estate market has witnessed two complete cycles, and is arugingly entering its third. Although, the direction of the this cycle still remains ambiguous, we explore multiple indicators that help predict the future outcome, whilst assessing past performances of individual communities.

Community-Wise YTD Investor Return

	Rank	Community	YTD Price Appreciation	Half Yearly Rental Return	Total Return YTD
Apartments	1	International City	20%	5%	25%
	2	Sports City	18%	4%	22%
	3	Palm Jumeirah	19%	2%	21%
	4	JLT	17%	4%	21%
	5	Greens	17%	4%	21%
	6	Dubai Marina	16%	3%	19%
	7	Discovery Gardens	13%	4%	17%
	8	Jumeirah Park	10%	3%	13%
	9	Downtown	9%	3%	12%
	10	IMPZ	5%	4%	9%
	11	Motor City	5%	4%	9%
Villas	12	Arabian Ranches	5%	3%	8%
	13	Springs / Meadows	5%	3%	8%
	14	Jumeirah Islands	5%	2%	7%
	15	Jumeirah Golf Estates	-2%	2%	0%

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In the first half of 2014, apartment communities exhibited greater capital appreciation along with rental returns relative to villa communities. Within in the apartment spectrum, mid-income communities have outperformed the market being led by International City giving an annualized return of 50%.

Q2-Capital Appreciation Performance Results

Rank	Community	Q1-2014 AED/SQFT	Q2-2014 AED/SQFT	QoQ Δ
1	International City	677	747	10%
2	Sports City	881	996	10%
3	Dubai Marina	1655	1780	8%
4	JLT	1274	1370	8%
5	Greens	1426	1528	7%
6	DSO	848	891	5%
7	Jumeirah Park	1266	1323	5%
8	Discovery Gardens	856	893	4%
9	Palm Jumeirah	1812	1882	4%
11	Jumeirah Islands	1687	1727	2%
12	Arabian Ranches	1275	1275	2%
13	Motor City	997	1021	2%
14	Downtown	2491	2548	2%
15	Jumeirah Golf Estates	1652	1672	1%
16	Springs / Meadows	1223	1226	0%
17	IMPZ	996	980	-2%

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A Q-o-Q analysis of capital appreciation reveals that International City remains as the best performer on par with Sports City, both experiencing a 10% change. IMPZ is at the bottom of the list and is experiencing negative growth, which highlights its over-valuation.

Q2-Rental Growth Rate Performance Results

Rank	Community	Q1-2014 AED/SQFT	Q2-2014 AED/SQFT	QoQ Δ	Gross Yields Q2
1	Discovery Gardens	64.44	75.84	18%	8.83%
2	Sports City	69.84	76.32	9%	8.20%
3	JLT	97.68	102.48	5%	7.74%
4	Dubai Marina	110.28	114.84	4%	6.65%
5	Jumeirah Islands	60.84	63.12	4%	3.71%
6	Arabian Ranches	75.72	77.52	2%	6.25%
7	International City	101.04	103.44	2%	9.47%
8	Jumeirah Park	66.48	67.32	1%	5.21%
9	IMPZ	77.76	78.48	1%	8.3%
11	Greens	111.24	111.72	0%	7.56%
12	Motor City	78.24	78.24	0%	7.94%
13	Downtown	136.68	134.64	-1%	5.41%
14	Palm Jumeirah	97.08	95.16	-2%	3.75%
16	Jumeirah Golf Estates	76.08	74.28	-2%	4.54%
17	DSO	75.48	73.56	-3%	8.57%

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A QoQ on rental growth rates shows that there has been a surge in demand for units in Discovery Gardens, thus causing an 18% increase in rental rates. Whereas we have started to see a decline rental prices in Downtown, Palm Jumeriah, Jumeirah Golf Estates and DSO.

Performance Indicators

"Big results require big ambitions." Heraclitus

Indicator: Transactional Activity

QoQ -7%

YoY -20%

Number of Mortgages		
Community	Q1-Q2 '14	Jul '13 vs Jul'14
Discovery Gardens	63%	-19%
Jumeirah Lake Towers	24%	9%
Downtown Dubai	12%	21%
Arabian Ranches	7%	-40%
Dubai Marina	-4%	-3%
Palm Jumeirah	-14%	-48%
Jumeriah Park	-15%	-28%
Jumeriah Islands	-17%	-13%
Motor City	-18%	13%
JVC	-20%	11%
The Greens	-24%	-45%
The Springs and The Meadows	-27%	-60%
Dubai Sports City	-63%	-55%

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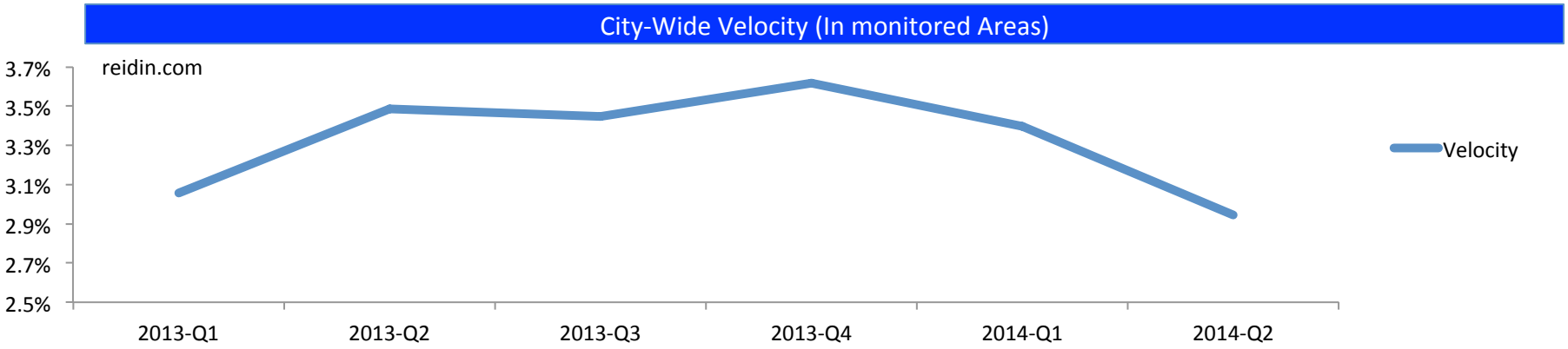
QoQ -14%

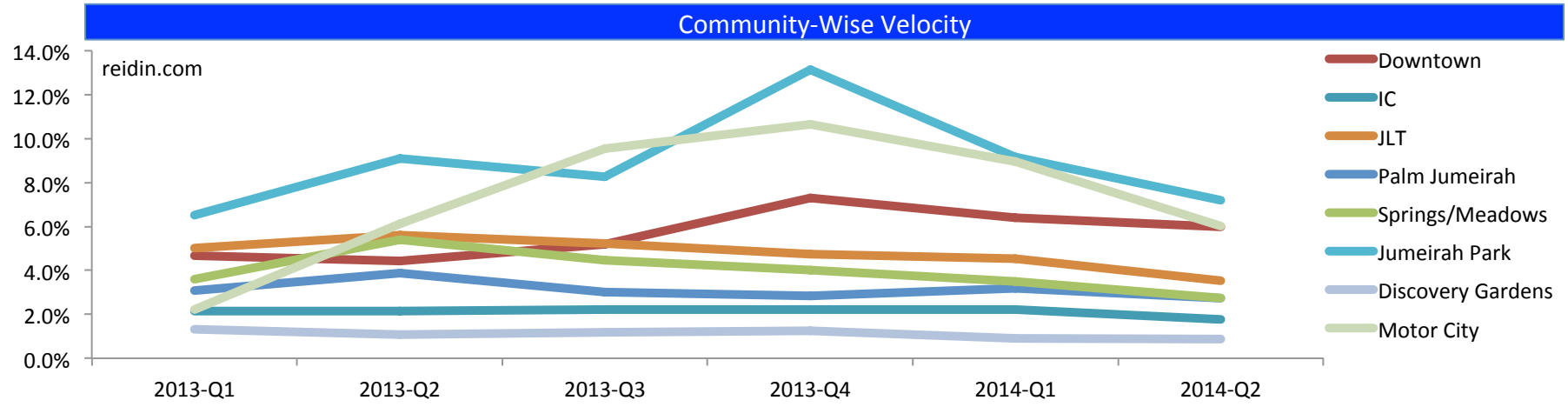
YoY -30%

Number of Cash		
Community	Q1-Q2 '14	Jul '13 vs Jul'14
Arabian Ranches	17%	-64%
Jumeriah Islands	0%	-63%
Dubai Marina	-2%	-31%
JVC	-3%	1%
Dubai Sports City	-7%	64%
Discovery Gardens	-11%	-31%
IMPZ	-12%	-22%
Palm Jumeirah	-14%	-48%
The Springs and The Meadows	-15%	-32%
International City	-16%	-36%
Downtown Dubai	-16%	-26%
The Greens	-24%	-51%
Jumeriah Park	-26%	-46%
Jumeirah Lake Towers	-35%	-52%
Motor City	-40%	-17%

There has been a plunge of an average of 30% in cash transactional activity on a YoY basis (the villa segment being effected the most - 51%). Where as in mortgages there has been an average YOY decline of 21%.

Indicator: Velocity





A velocity analysis of Dubai shows that since the beginning of the year velocity has dropped by 16%, this leads us to believe that Dubai's overall market has become less speculative in nature, being driven by a strong investor demand, compared to the 'flippers'. This is normally a good predictor of certain price pressures to the downside as certain speculators with weak holding capacity resort to "panic" selling

Indicator: Q Ratios

Q RATIO = CURRENT VALUE / REPLACEMENT VALUE

Apartments						
Rank	*Community*	Price Aed/Sqft	Land Cost	Construction Cost	Replacement Cost	Q-Ratio
1	International City	765	165	300	465	1.6
2	Discovery Gardens	913	250	300	550	1.7
3	Dubai Marina	1786	500	550	1050	1.7
4	JLT	1373	350	450	800	1.7
5	DSO	884	200	300	500	1.8
6	Palm Jumeirah	1926	500	550	1050	1.8
7	Greens	1531	350	450	800	1.9
8	Sports City	980	210	300	510	1.9
9	IMPZ	980	200	300	500	2.0
10	Motor City	1013	150	300	450	2.3
11	Downtown	2574	550	550	1100	2.3

Villas						
Rank	*Community*	Price Aed/Sqft	Land Cost	Construction Cost	Replacement Cost	Q-Ratio
1	Springs / Meadows	1222	650	450	1100	1.1
2	Arabian Ranches	1318	670	450	1120	1.2
3	Jumeirah Golf Estates	1668	800	450	1250	1.3
4	Jumeirah Islands	1754	650	450	1100	1.6
5	Jumeirah Park	1321	400	400	800	1.7

The Tobin's Q-Ratio (for which James Tobin won the Nobel Prize for Economics in 1981), is a valuation tool that is used to measure an assets value relative to its market value. When this ratio is applied to Dubai's real-estate we see that Downtown has a higher Q-Ratio relative International City by 30%. This is perhaps the clearest indicator yet of the relative overvaluation (of approximately as much as 30%) of the trophy property segment.

However, if mid-income communities continue out-pace Trophy properties in terms of price action, the gap between the Q-Ratios will decrease making both sectors attractive, thus the paradox of affordable housing.

Rental Yields

	Rank	Community	Gross Yield Q2	Gross Yield Q1	Change
Affordable Housing	1	International City	9.47	9.45	0%
	2	Discovery Gardens	8.83	8.33	6%
	3	DSO	8.57	9.01	-5%
	4	Sports City	8.36	8.21	2%
	5	IMPZ	8.3	7.96	4%
	6	JVC	8.28	8.55	-3%
High-End Communities	7	Motor City	8.09	8.13	0%
	8	JLT	7.74	7.94	-3%
	9	Greens	7.56	8.08	-6%
	10	Dubai Marina	6.65	6.87	-3%
	11	Springs / Meadows	6.32	6.39	-1%
Trophy Properties	12	Downtown	5.41	5.66	-4%
	13	Jumeriah Golf Estates	4.54	4.7	-3%
	14	Palm Jumeruah (Villa)	3.75	4.24	-12%
	15	Jumeirah Islands	3.71	3.67	1%

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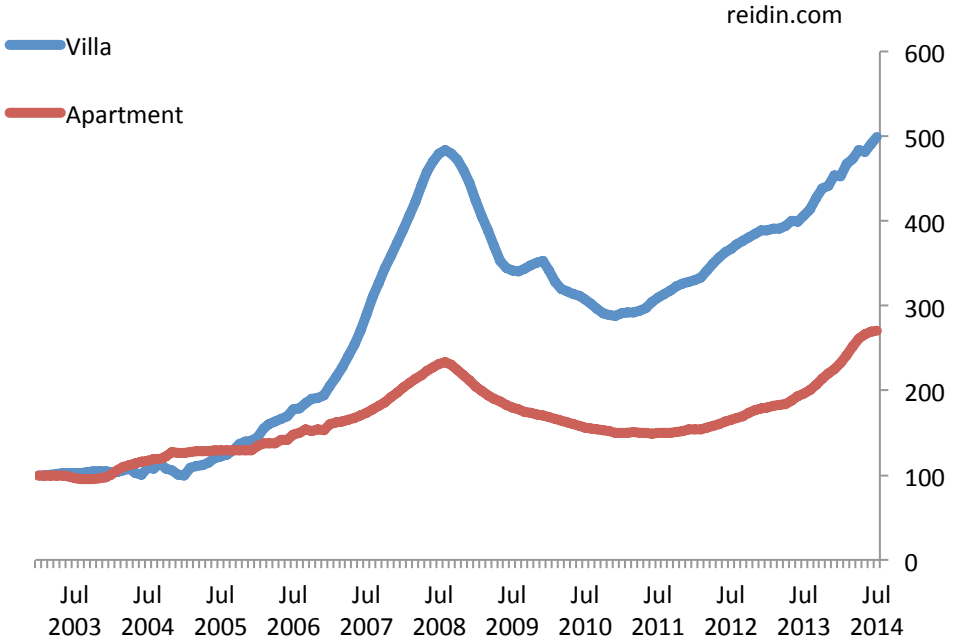
A market-wise comparison shows that Affordable Housing has the highest gross rental yield at 8.6%, whereas the Trophy Property segment has the lowest net return at 4.35%. Within the Affordable Housing segment International City currently has superior returns at 9.47%, followed by Discovery Gardens at 8.83%. These high-yields make mid-income housing communities an attractive buy for investors. Moreover, the low maintenance fees (10-12 Aed Per Sqft) incurred by land-lords in these communities allow them reap higher net returns compared to trophy properties like Palm Jumeirah and Downtown (26 - 32 Aed per Sqft).

What is the Trade?

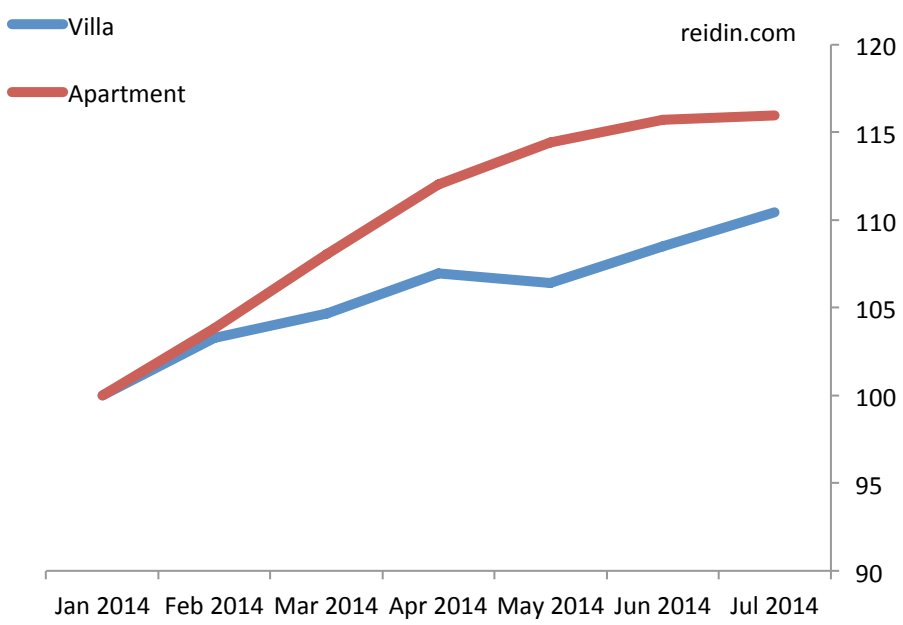
"Shallow men believe in luck or in circumstance. Strong men believe in cause and effect." - Ralph Waldo Emerson

Apartments Will Continue to Out-Perform Villas …

Villas Vs Apartments Price Index: 2003- 2014

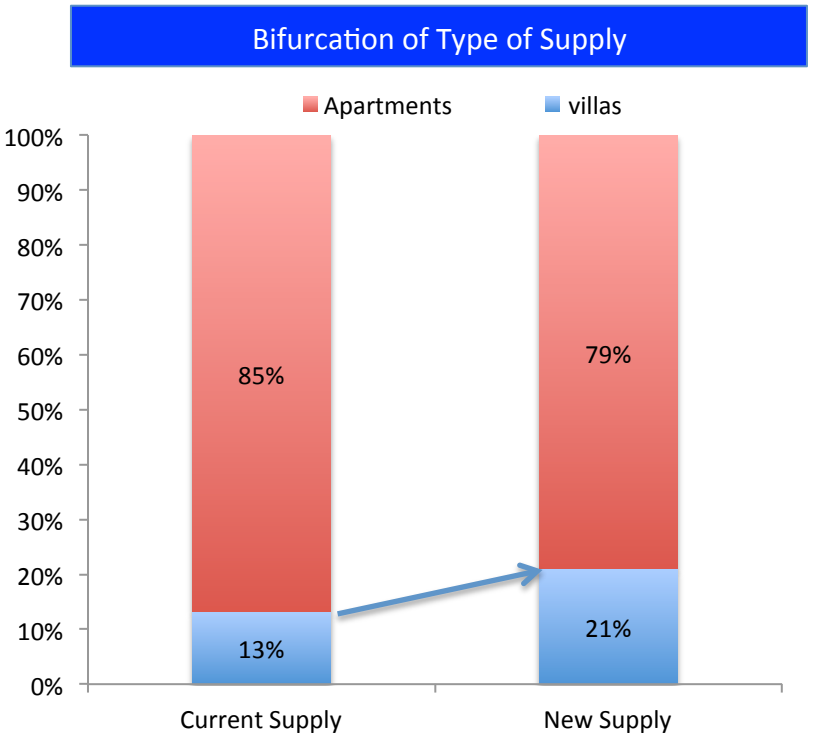


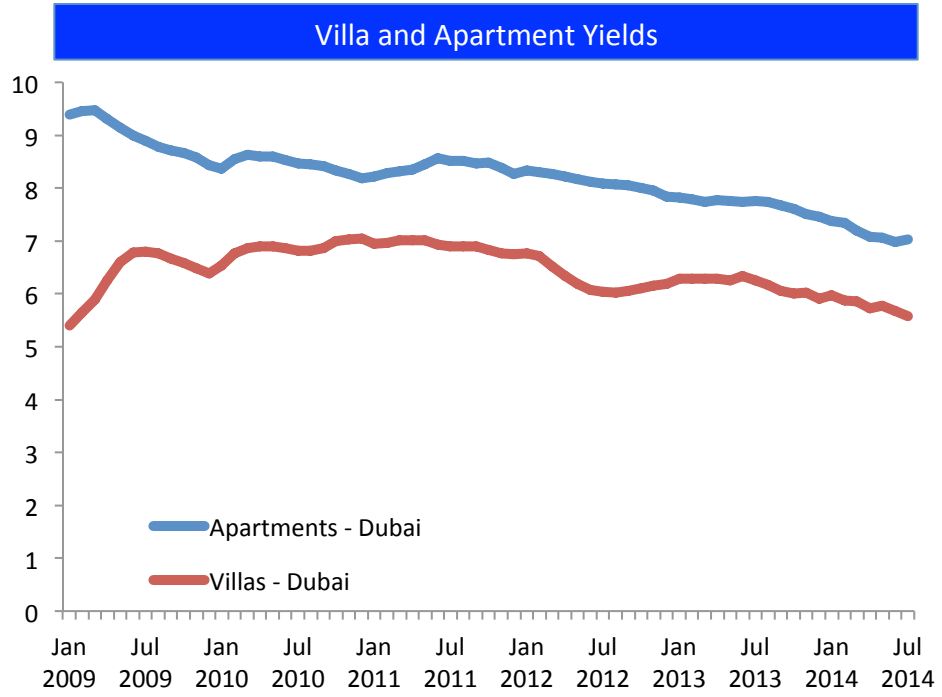
Villas Vs Apartments Price Index: 2014



Historically, villas have out performed apartments in relation to price action by a factor of 2x. However, at the beginning of 2014 we have begun to see a paradigm shift where apartment communities have had superior growth rates by almost 50%. We opine that this trend will continue until the lopsidedness of supply is corrected within both segments.

…. Because of Supply Mismatch Coupled With Yield Expansion

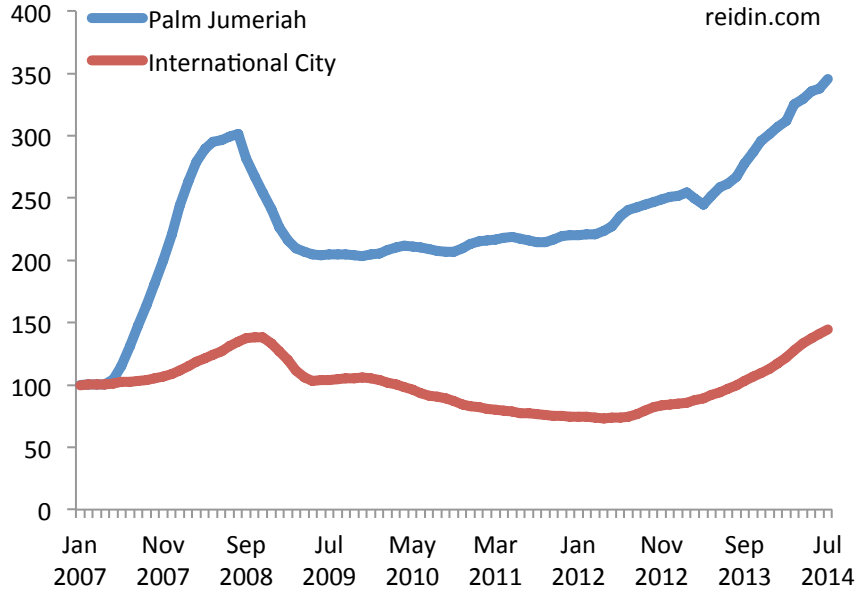




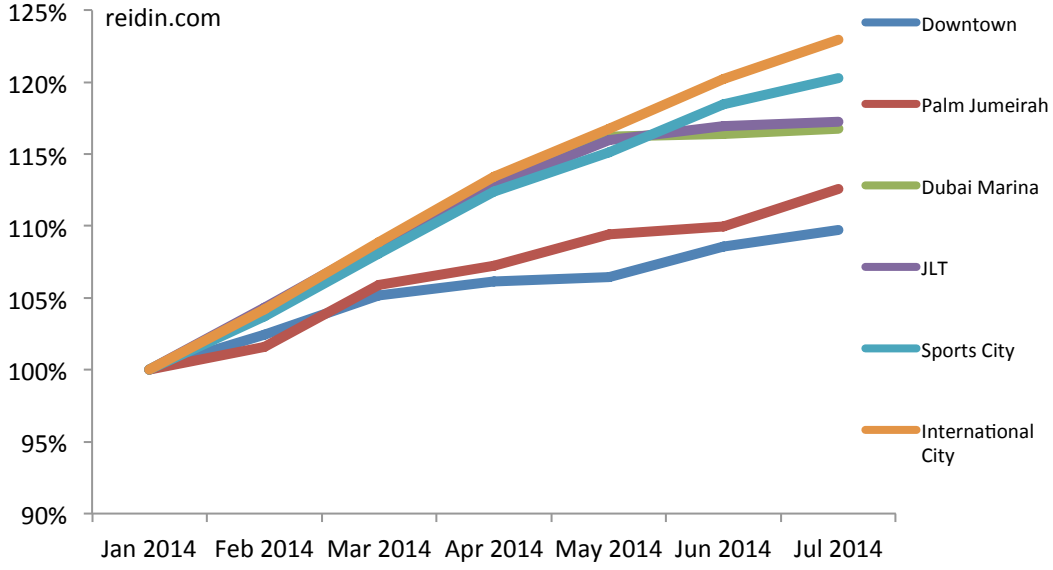
An estimated number of 24,296 units (15% increase of existing supply) will enter the apartment housing segment, compared to 10,094 (41% increase of existing supply) units in the villa segment. The surplus created within the villa community will further taper price actions of this segment. The imbalance of supply will lead to higher price growth rates for apartment communities, driven predominantly by greater demand in the middle-income segment. Whilst rental yields have compressed in both the real estate segments, the continued downward pressure has been exacerbated in the villa segment implying that either prices in this segment will move lower and/or spreads between the apartment and the villa segment will converge as investors look to "chase yields".

Mid-Income Housing Will Continue to Outperform Within the Apartment Segment

Price Index 2007 – Till Date: International City vs Palm Jumeirah

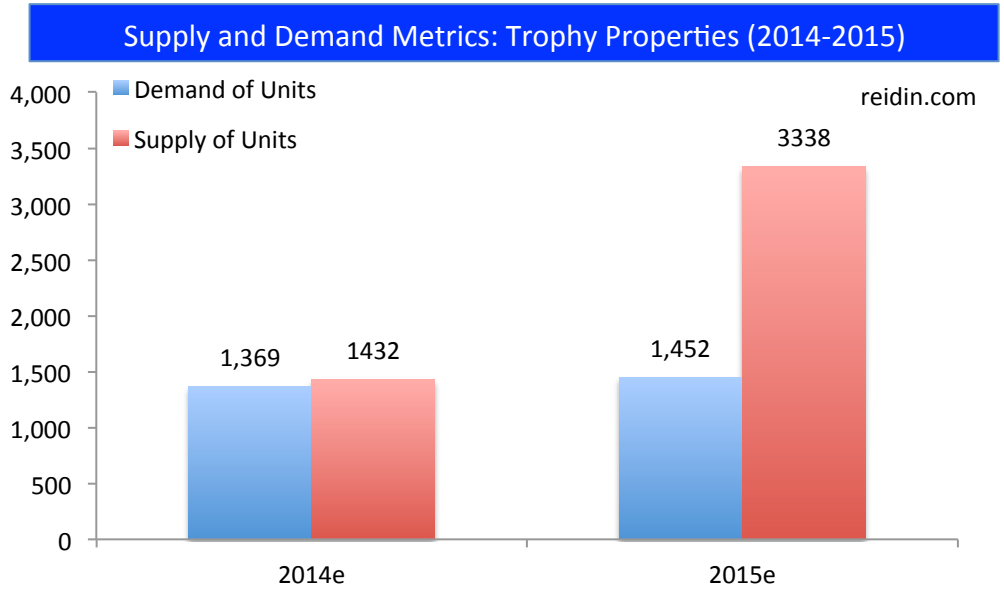


Community Wise Price Index: Jan '13 – Till Date

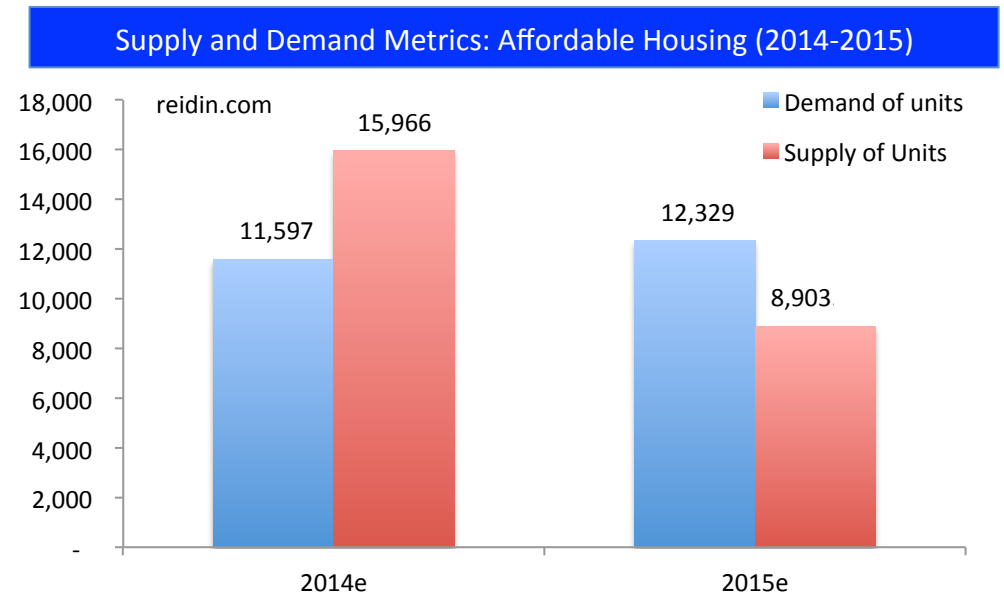


Historically, Trophy Properties have had superior growth rates to Affordable housing in Dubai. A comparison between Palm Jumeriah (a proxy for Trophy Properties) against International City (a proxy for Affordable Housing), shows that in the last 7 years Palm Jumeirah has had greater price action by a factor of 2X. However in the last 7 months there has been a paradigm shift where the affordable segment (e.g. International City) has been the best performer in the market (20% appreciation).

Lopsided Supply in Trophy and Mid-income

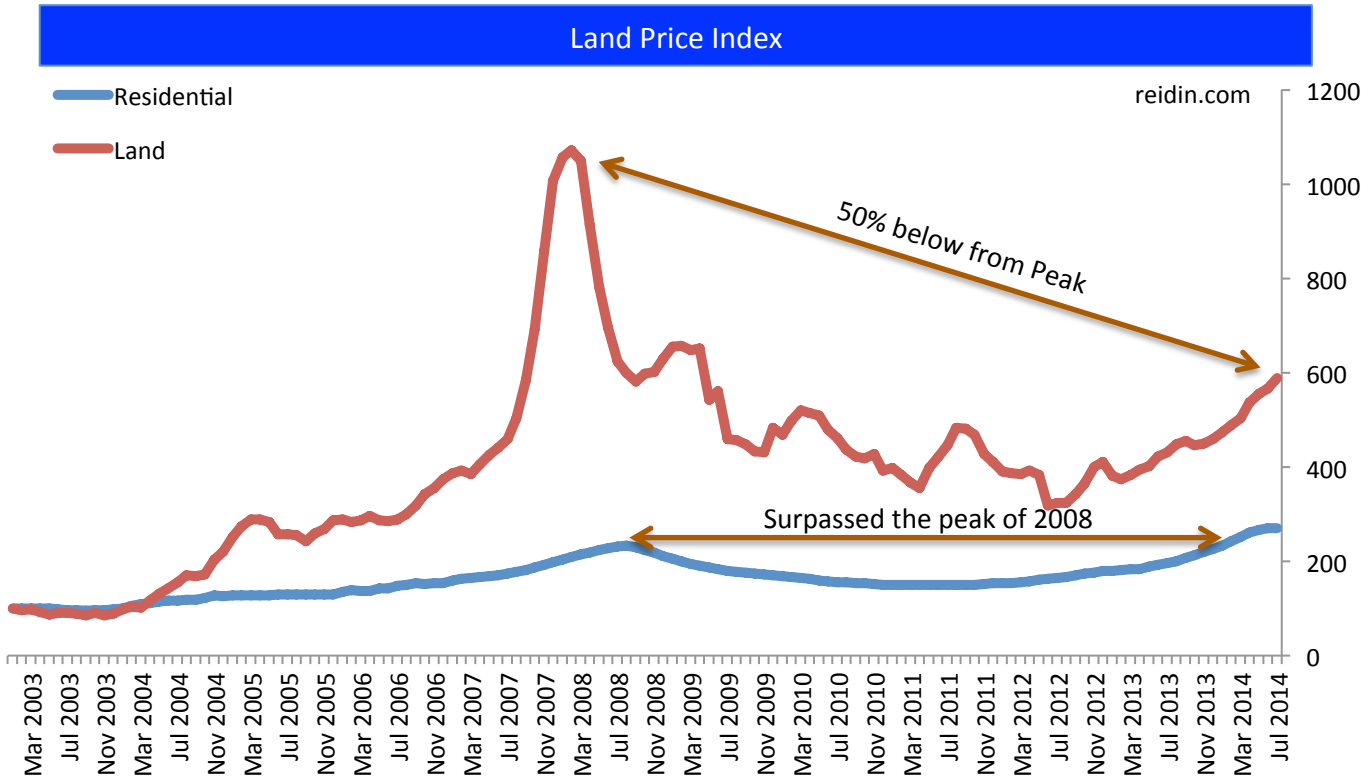


In the next four years 11,198 prime-units are expected to be delivered in the market, which is more than a 50% increase of the overall supply. This expected supply doesn't include a series of new trophy-property communities that are in the pipeline such as Lagoons, Blue Water Islands and Dubai Pearl Islands. These new projects will create an additional windfall of units within this segment. Of particular relevance is the fact that one third of this supply is in the form of villas (when compared to the historical average of 13%)



The middle-income segments accounts for 43% of the total population, and will be the key demand driver for the construction boom in the coming years. An analysis of supply and demand dynamics reveals a shortfall within this segment (a polar opposite to the trophy market segment), which will lead to an upward pressure in prices. This pressure will continue tread higher until major land backs are activated such as Liwan, Majan, and DWC Residential City.

Land Price Have Signs of Strong Fundamentals



A comparison between the land and residential price index highlights the difference in price action between both asset classes. The end-unit prices have surpassed their peak of 2008, where as land prices are still at 50% of its peak level.

Conclusions

The apartment segment has outperformed villa communities in the first half of 2014, with affordable housing being the main beneficiary

Q2 Performance Highlights

A segment-wise update of Q2, highlights that apartments have outperformed villas by a factor of 3. (Average 17% vs 6%)

Rental yields also remain stronger within the apartment segment yielding approximately double of villas. (Average 8% vs 4.5%)

The top performer for the first half of 2014 is International City (25%), followed by Sports City (22%). Both communities are in the affordable housing segment

Outlook: Apartments to Outperform Villas

Over the last 6 months a paradigm shift has occurred where apartments have had superior growth rates relative to villas.

A flurry of new projects have been added to the villa supply creating an imbalance.

We expect this trend to continue causing price growth rates to diverge further within these segments

The middle-income segments accounts for 43% of the total population, and will be the key demand driver for the affordable housing in the coming years

Outlook: Affordable Housing to Offer Higher Growth Rates

As Dubai continues to inject supply into the market to cope with the growing demand, developers have focused on high-end developments catering to leisure class.

However, the majority of demand in coming years will be by the mid-income population, creating a shortfall within this segment.

Until this mismatch of supply is not corrected, mid-income communities will continue to outperform trophy properties

Outlook: Land to have Superior Growth Rates to Residential Units

As Dubai enters into another construction frenzy, land prices will continue to out-pace end units, as private developers snatch up plots

The land index highlights that price still 50% below its peak of 2008, whereas residential prices have already crossed their last peak.

Land price will continue to rise surpassing those of residential as supply decreases exponentially

Unitas believes in in-depth planning and discipline as a mechanism to identify and exploit market discrepancy and capitalize on diversified revenue streams.

Our purpose is to manage, direct, and create wealth for our clients.

Unitas is the author for these research reports

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