



## Dubai: Follow the Money

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# Executive Summary

- As Dubai enters the phase known as the 'new normal' and irrational exuberance vanishes, transactional activity in certain communities are down more than 40% from the peak of 2013. A comparison between Q1-Q3 '14 versus Q1-Q3 '15 shows that transactional activity is still trending downwards in monitored areas. However, Q3 '14 versus Q3 '15 shows an uptick of activity signaling that a period of stabilization may be on the horizon.
- When analyzing transactional data, we need to understand the process of different types of transactions. The two main types fall under 'Sales' and 'Mortgage'. Within the 'Sales' category there are multiple types of transactions that include cash, mortgage, inheritance, and unit registrations. Whereas in the 'Mortgage' category, the mortgage component of the 'sales' transaction is registered, along with other types such as 're-finance'. In the data, the transactions are shown separately, even though they comprise two parts of the same deal. Double counting the transactional activity has twin effect of overstating investor activity as well as understating the amount of influence that mortgage levels have, and research reports for the most part have not been able to dissect this anomaly.
- A dissection of the types of transactions, reveals that mortgages account for a larger portion in 2015 compared to their historical averages, moving away from the convention norm of 3 out of 4 transactions being sales. Mortgages are considered to be an indication of home-ownership, which highlights the shift of the market from an investor based to an owner-occupied one. However, there are instances where mortgage transactions out-weigh sales, especially in the periods of a down-turn implying a higher number of re-financing and other types of transaction are taking place.
- A time-series analysis of price action and size of units sold can help decipher the elasticity of the purchasing power of buyers and sellers. In Downtown, we saw that as prices began to accelerate in 2012, the percentage of transactions of two and three bedrooms began to decrease, whereas studios and one-bedrooms began to increase. However, in 2014 as prices began to dip, the landscape changed as three bedrooms began to contribute towards a larger part of overall transactional activity.
- Transactional activity in areas with a high number of up-coming units can distort the measure of actual transactions in a given month. At the point where a project is completed, there are a series of transactions that take place causing an extraordinary spike in activity. These transactions are properties that were sold in the year of the launch of the project, but are being recorded on the handed-over. This phenomena is mainly witnessed in emerging communities such as Sports City and IMPZ.



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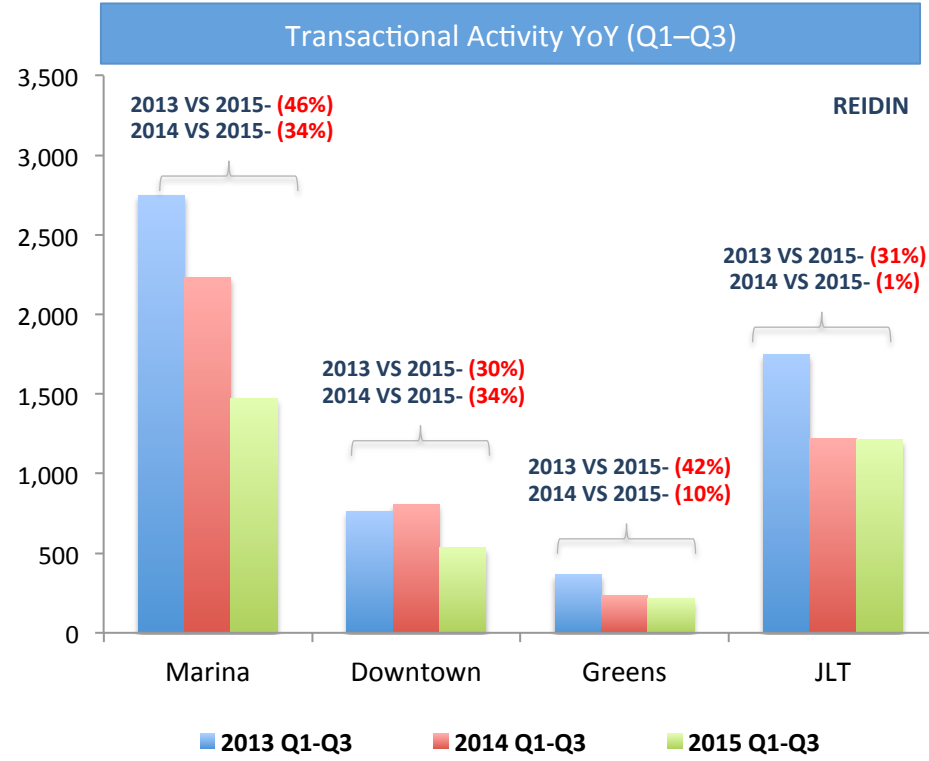
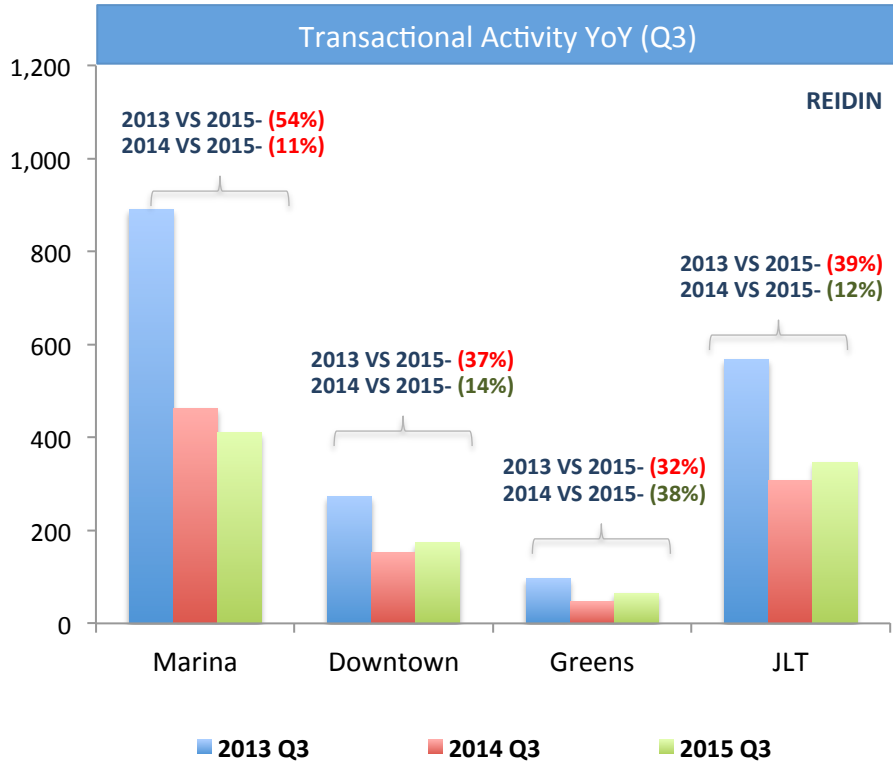
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# Transaction Overview of Sales in Select Communities



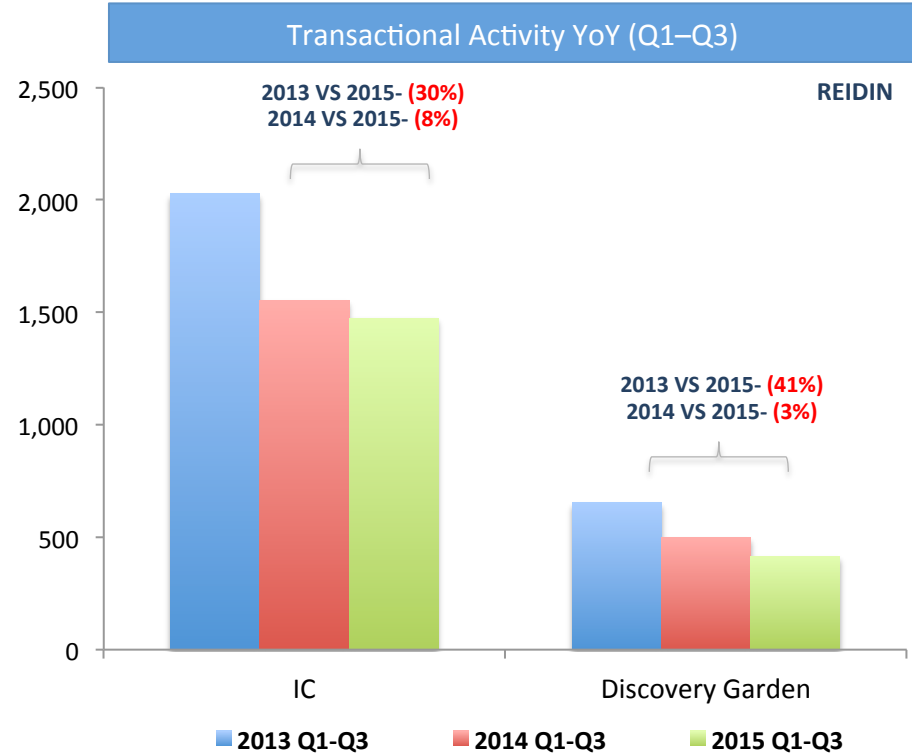
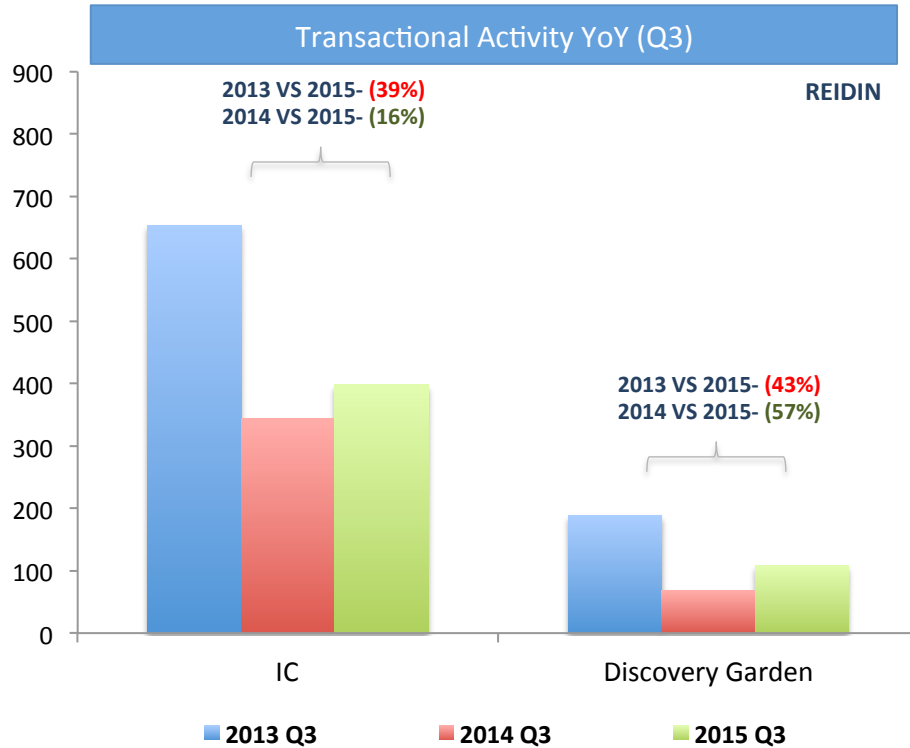
“Doctors most commonly get mixed up between absence of evidence and evidence of absence” – Nassim Nicholas Taleb

# Apartments: High-End Sales



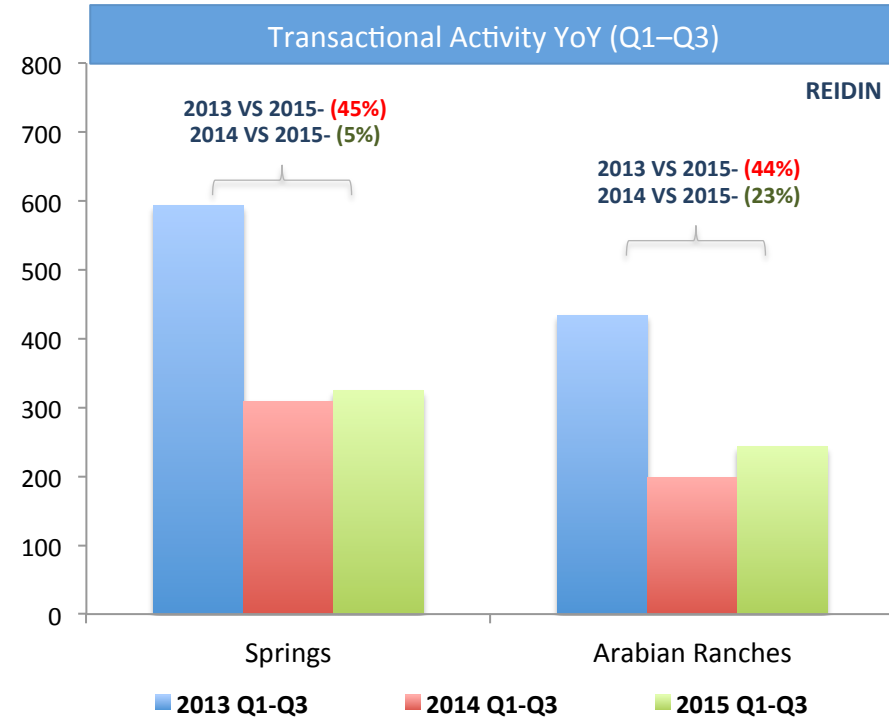
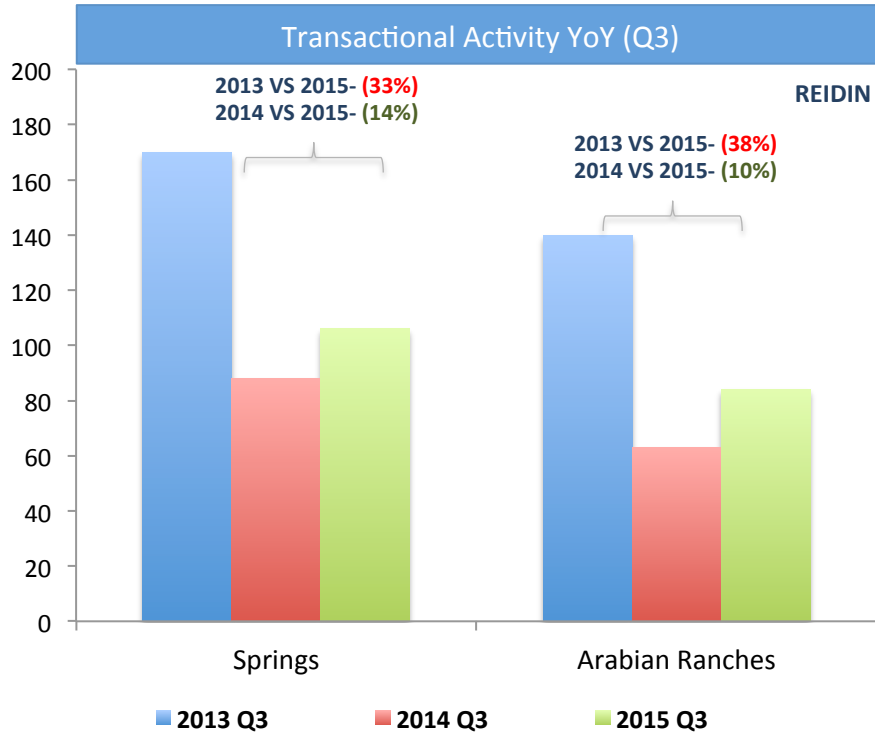
The above charts depicts transactional activity in the high-end mature apartment space. On a 9 month comparison between 2013 and 2015, we can see that sale transactions are down in monitored areas by a maximum of 46% and a minimum of 30%. However, a comparison between Q3 14 and Q3 15, an uptick in activity by an average of 8% has transpired. We opine as prices continue to fall transactional activity will begin to climb as investors and end-users enter the market to capitalize on the available discounts in the market.

# Apartments: Mid-Income Sales



A transactional activity analysis across the mid-income apartment space reveals a similar outcome to that of the high-end areas. However, a comparison of communities in both segments between Q1-Q3 '14 and Q1-Q3 '15, reveals that transactional activity has fallen by double the amount in the high-end areas (21% vs 11%). This difference can be attributed towards the over-valuation of the luxury segment due to the imbalance of supply and demand metrics that have played out in the market.

# Villas: High-End Sales



A closer look into transactional activity in the villa space reveals that Springs and Arabian Ranches have already witnessed a YoY increase in transactional activity. This uptick is likely due to the fall in prices that have been witnessed in this segment and we opine that this trend in the market will continue as prices will soften further. The rise in transaction volumes also indicates market expectations that participants feel that the fall in the market prices may be nearing an end.

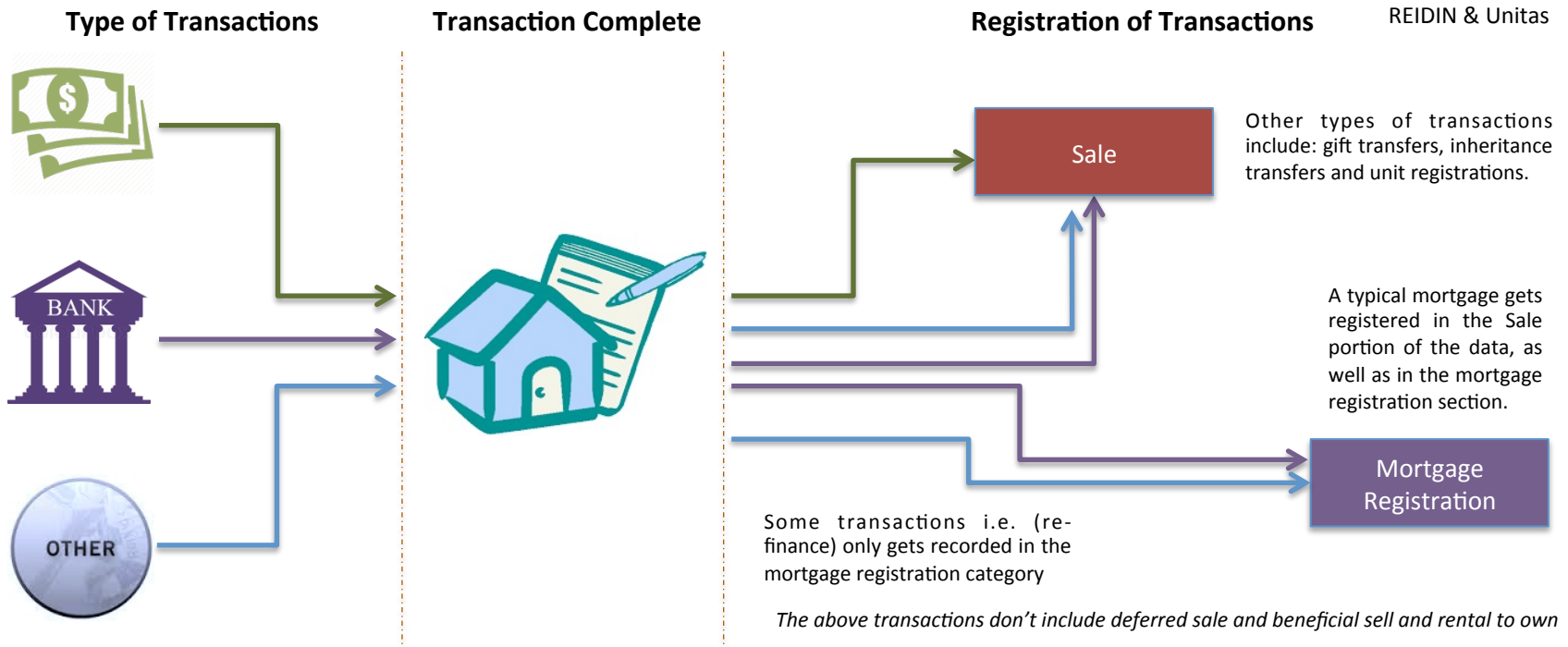
# Sales and Mortgages



“All truths are easy to understand once they are discovered; the point is to discovered them” – Galileo Galilei



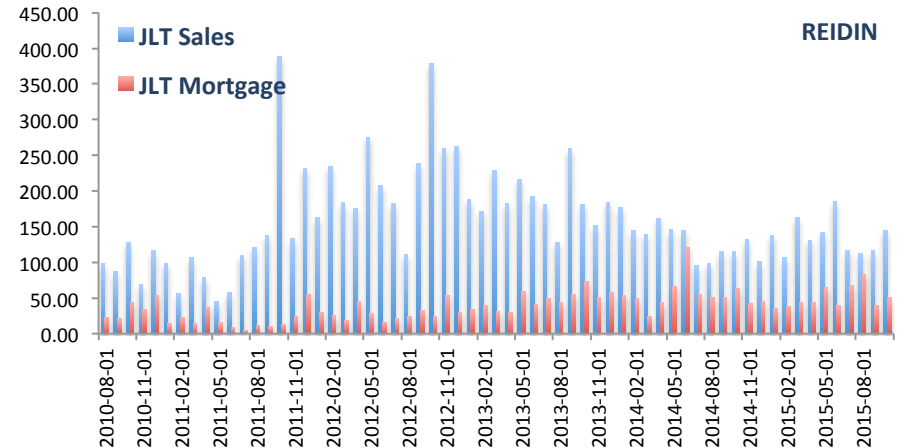
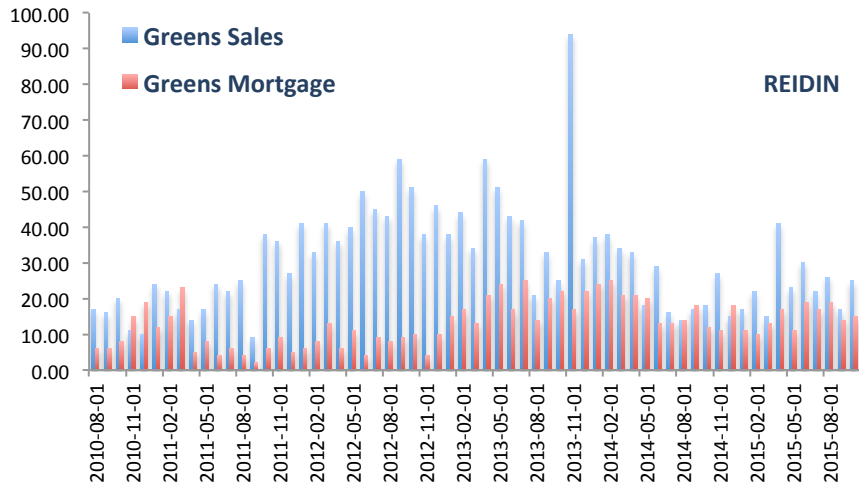
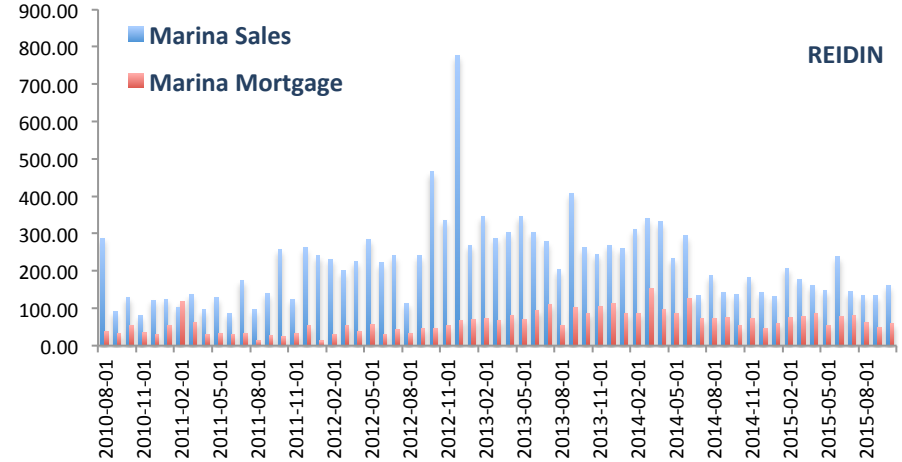
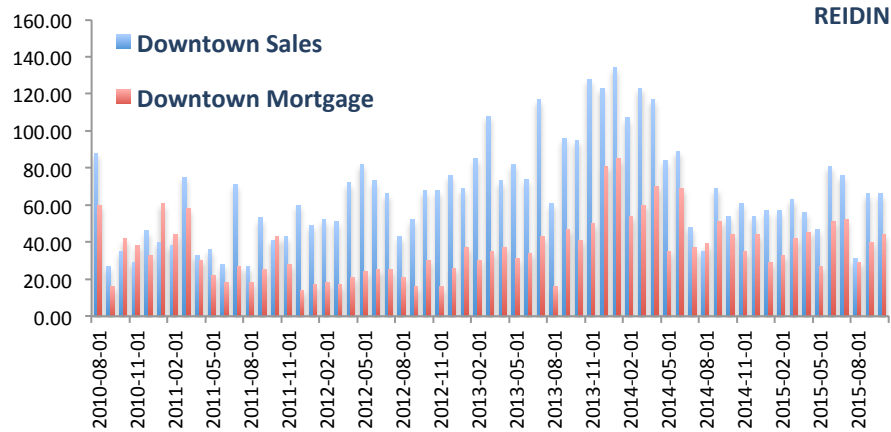
# Sales and Mortgages: Understanding the Data



When analyzing transactional data, we need to understand the registration process of different types of transactions. The two main types fall under 'Sales' and 'Mortgage'. Within the 'Sales' category there are multiple types of transactions that include cash, mortgage, inheritance, and unit transactions. Whereas in the 'Mortgage' category, the mortgage component of the 'sales' transaction is registered, along with other types such as 're-finance'. In the data, the transactions are shown separately, even though they comprise two parts of the same deal. Double counting the transactional activity has twin effect of overstating investor activity as well as understating the amount of influence that mortgage levels have, and research reports for the most part have not been able to dissect this anomaly.

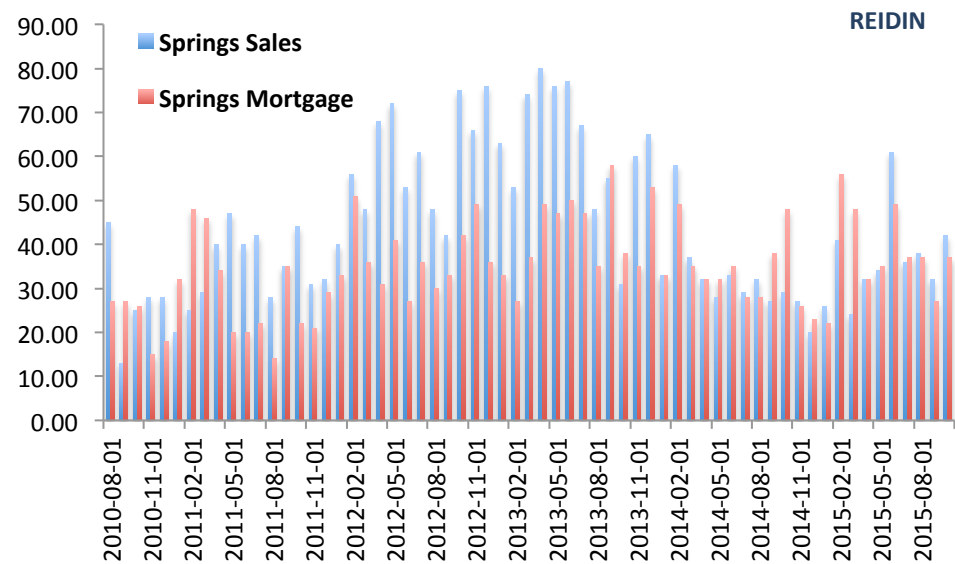
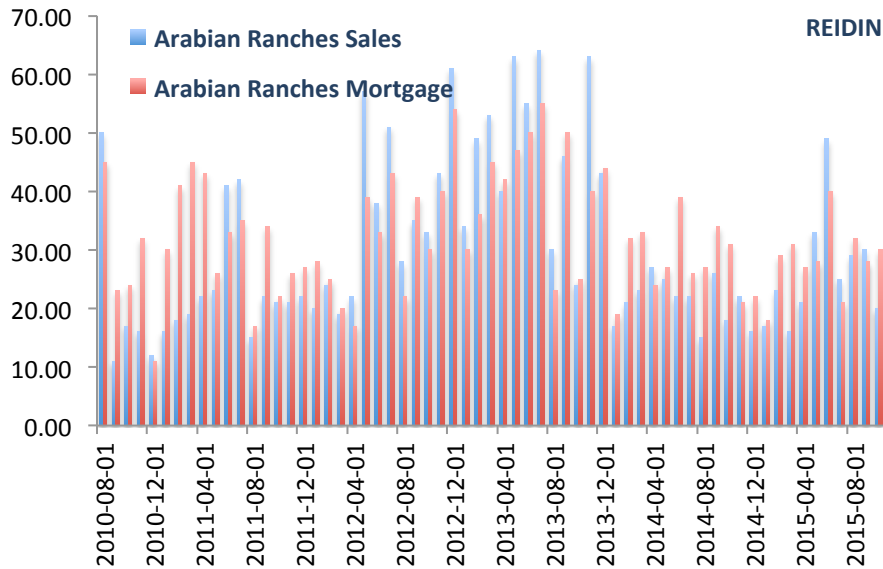
Transactions also have the effect of overstating market activity and it is prudent to siphon the data to exclude such "bulky activity", further increasing the influence that mortgage activity has on the marketplace.

# Sales and Mortgage Transactions: Mature Apartment Communities



An analysis between mortgage and sales transactions shows that the number of mortgages have continued to trend upwards since 2012 despite the price volatility. Mortgage transactions have continued to gain momentum changing the norm of sale transactions accounting for 75% of overall activity. This is particularly true for communities associated with end user ownership such as the Greens and JLT. Whilst this ignores re-mortgage activity, which cannot be separated from the above analysis, anecdotal evidence suggests that this is likely a small factor in the overall transactions.

# Sales and Mortgage Transactions: Mature Villa Communities



In the villa space mortgages continue to contribute 50% of overall activity, indicating a strong stable demand for ready villa units. We opine that with an increasing amount of supply of newer villa communities, end user ownership will spread to these areas, and given the higher propensity of mortgage, constitute investor and end user preference for communities as these options are delivered in the market.

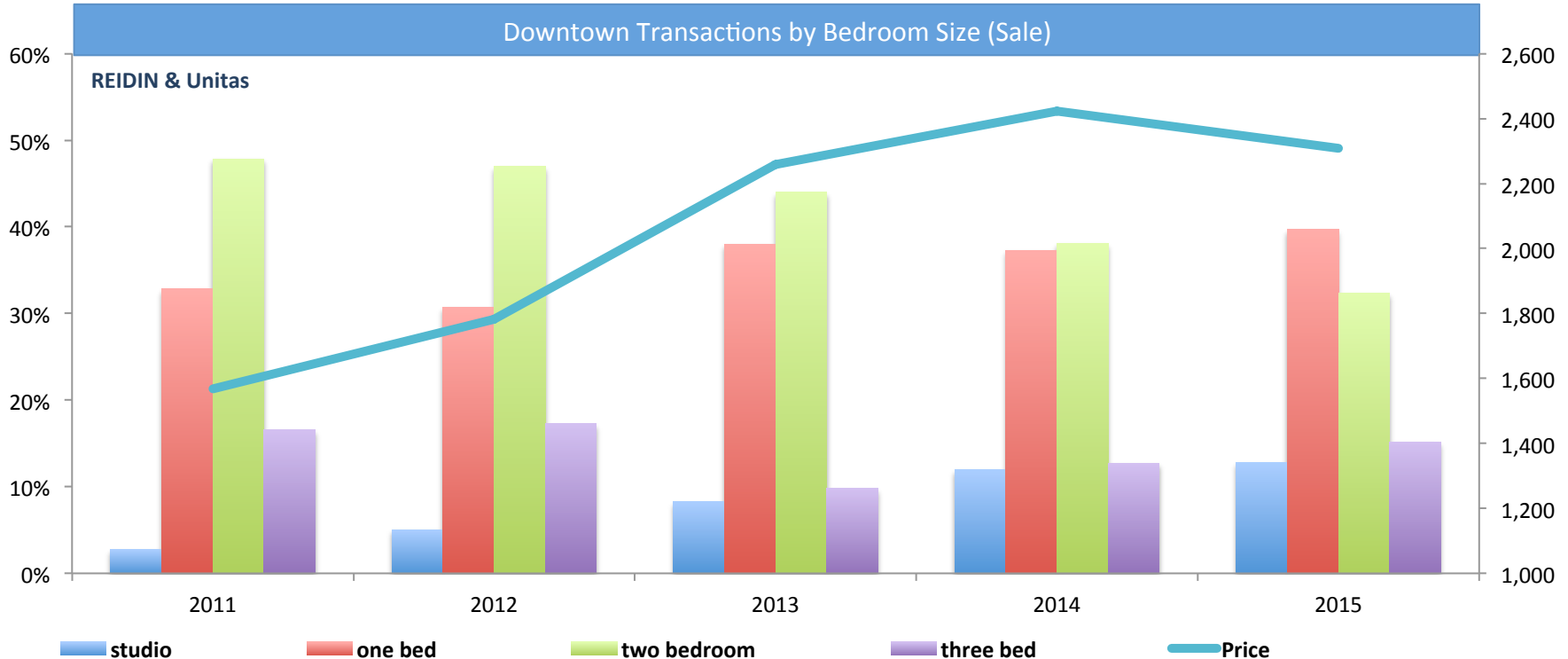
However, there are certain months that where mortgages overtake sales, implying that a larger number of re-finances or other types of transactions are underway. These instances are more common in the periods of declining prices (2008 Q3 -2011 Q2) and (2014 Q2 – till date)

# Prices and Bedroom Sizes: A Closer look into Downtown Dubai



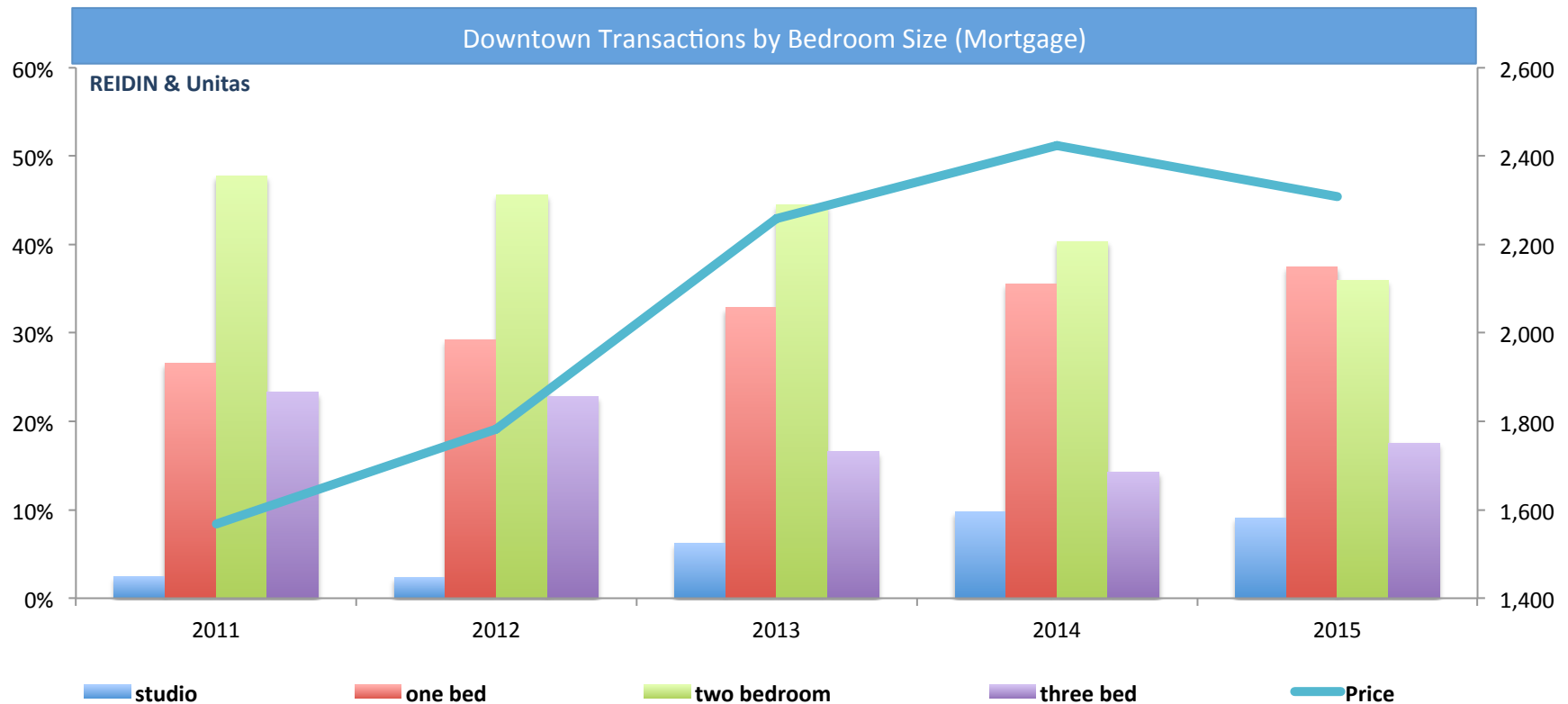
“I try not to break the rules but merely to test their elasticity” – Bill Veck

# Price and Bedroom Sizes: Downtown - Sale



An analysis of buying patterns against price trends in Downtown, reveals that the community is not only price sensitive, but that there is a change in buyer preferences that is being witnessed as end user buying takes hold. In 2011 as prices began to rise transactional activity in two and three bedroom space dipped, which was substituted for a rise in studio and one bedrooms. However, as prices began to dip in 2014, an uptick of transactions in the three bedroom space was witnessed. We opine If prices continue to dip further, decreasing the ticket size, larger size bedrooms will be the more the favorable unit, indicating not only end user preference for this community but also highlighting the expectation that prices are not expected to fall much further.

# Price and Bedroom Sizes: Downtown - Mortgage



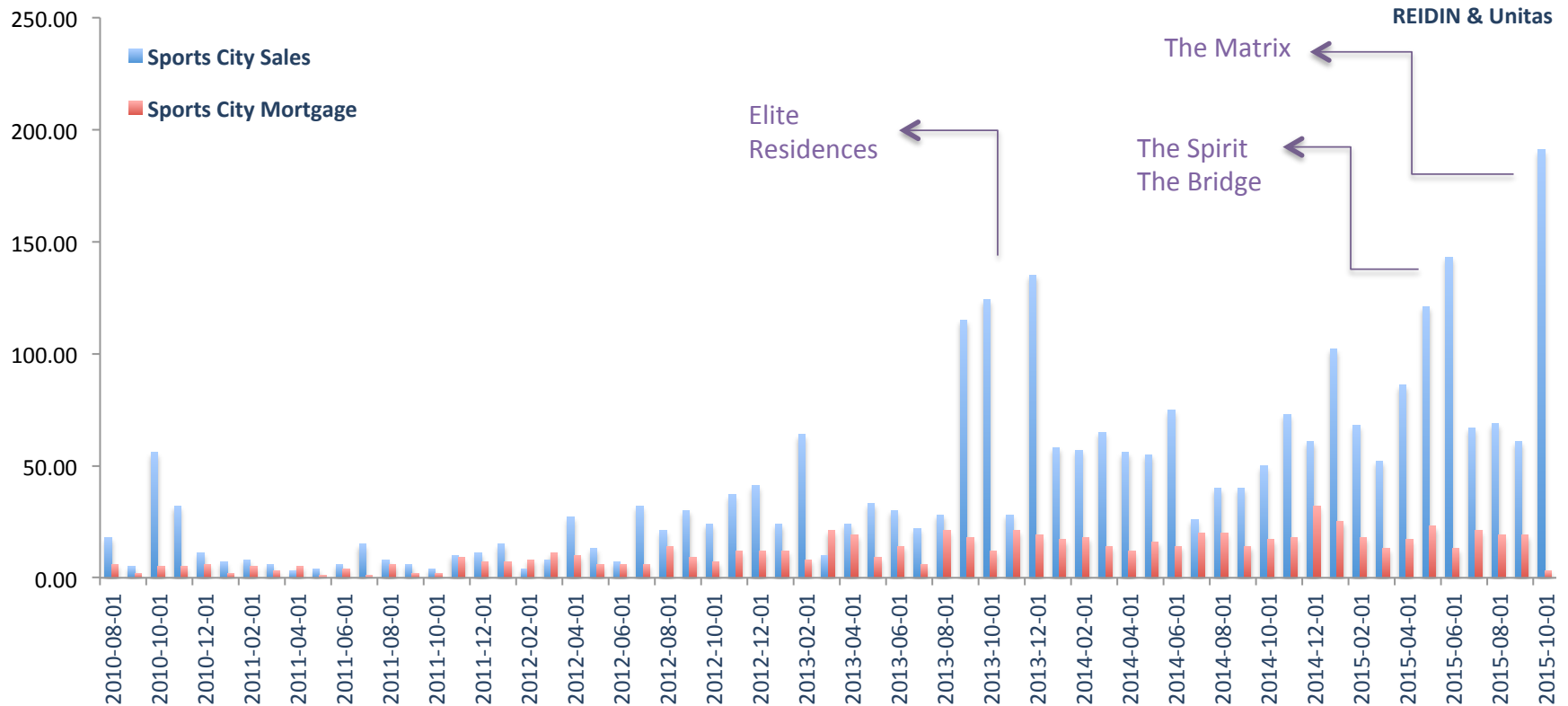
A mortgage analysis reveals that there has been an increasing demand for the studio and one bedroom space, whereas the 3 bedroom space appears to have had an uptick in 2015 on account of investors taking advantage of lower prices. This increasing trend of mortgage activity highlights a less speculative nature of ownership, and we opine that this is indicative of a healthy buying pattern in the market.

# Transactional Spikes and Registrations



“It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts.”  
— Arthur Conan Doyle

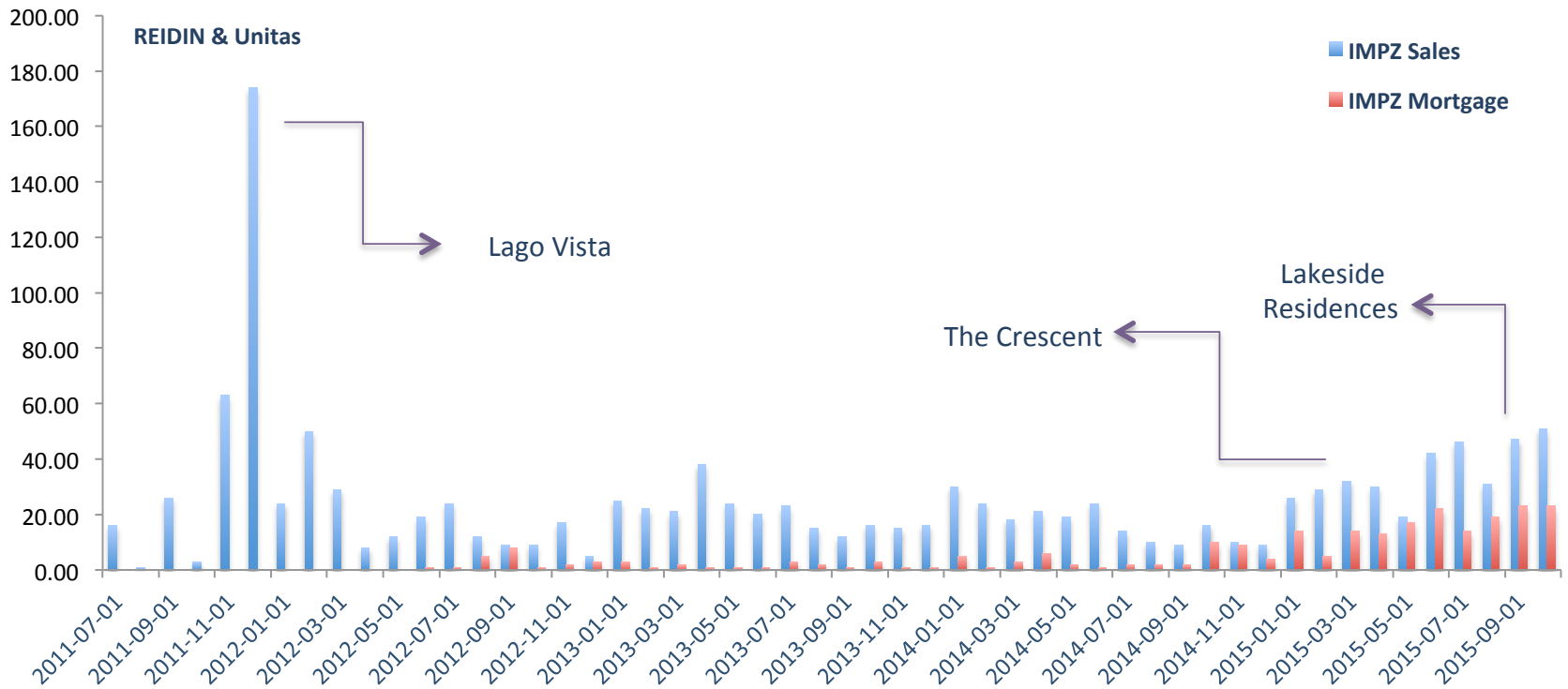
# Transactional Spikes and Registrations: A closer look into Sports City



A granular look into the transactional activity of Sports City, shows that over the last last five years there have been multiple spikes in the data pattern. A closer look reveals that the spikes coincide with the time a building was handed over in the community. Although, what might seem as a dramatic increase in activity, is merely a series of registrations that have been recorded on a post facto basis. Registrations are properties that were sold off-plan at the time of the launch, but were registered in the DLD when the building was complete.



# Transactional Spikes and Registrations: A closer look into IMPZ



A similar scenario can be witnessed in IMPZ, that shows spikes of transactions that coincide with a building being handed over. It is important to identify these trends, as it can be misconstrued for increase in activity, when in actuality it is transactions of the past.

# Conclusions

*As Dubai enters the phase known as the 'new normal' and irrational exuberance vanishes, transactional activity in certain communities are down more than 40% from the peak of 2013*

*It is important to understand registration data points, as it can be misconstrued for increase in activity, when in actuality it is transactions of the past.*

## Transactional Overview of Select Communities

Transactional activity continues to fall on a YoY basis for the first three quarters in select communities. However, the third quarter of the year signals a improvement with an uptick in activity compared to the same time last year.

If this momentum continues we opine that price stabilization will be on the horizon and eventually followed by a recovery stage.

A YoY comparison between mid-income and high-end communities reveals for the first three quarters that latter has fallen twice as much as the former, highlighting the value in each segment.

## Price and Bedroom Size

Using Downtown as an example to analyze transaction patterns, reveals that buyers and sellers are not only sensitive to price change but that there is a change in buying patterns that is being witnessed.

As prices began to rise in 2012, the percentage of larger size units (two bedrooms and three bedrooms) were substituted for smaller size units (studios and one bedrooms).

However, as prices began to come down in 2014, reducing the ticket size of purchases, the percentage of three bedrooms saw an increase. If prices continue to fall we opine larger size units will be more popular as buyer take advantage of the small ticket sizes.

## Sale and Mortgages

The break-down of transactional activity by type reveals that mortgages have contributed to a higher percentage of the overall activity compared to their historical average of 1 out of 4 in select communities.

The reason for this shift partly has to do with the consistent rise of mortgages and dip in sale transactions, highlighting Dubai's shift towards an owner-occupier market

If prices continue to fall we opine that bargain hunters will enter the market, shifting the scale again towards sale transactions

## Spikes and Registrations

Understanding the data points is a key element in analyzing the transactional activity in a community. Registrations can account for a large portion of activity in emerging communities, as units get handed over compared to developed areas that have low levels of new supply

The extra-ordinary spikes of sales in areas such as IMPZ and Sports City may be attributed to an increase in buying, when in actuality it is registrations. These are transactions at the launch of a project but are being recorded at the time of the hand-over. It is important to distinguish between the data points to give a clearer picture of activity at the current time



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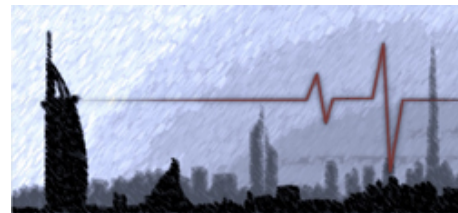
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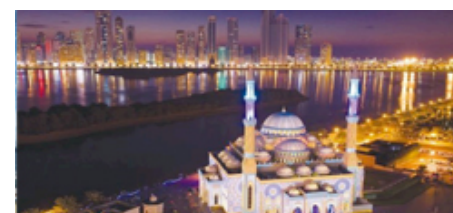
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