



Home-Ownership: Dubai's Road to Prosperity 2013

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Executive Summary

- Dubai's freehold real-estate market is undergoing a paradigm shift as end-user home ownership increasingly becomes a dominating force, following the trajectory of other developed cities in the world
- Rising prices in the Sheikh Zayed road corridor is sparking a migratory effect to other communities such as Arabian Ranches, Falcon City, Sports City and Jumeirah Village, indicating that the two tiered market hypothesis is gathering momentum. This trend is expected to accelerate in the coming years as Dubai gears up for the construction of the massive Dubai World Central Project in time for the World Expo in 2020
- An analysis of mortgage transactions indicates that end user occupiers prefer quality developments from grade A developers, regardless of location, with an increasing propensity to invest in Government Sponsored Developers (GSDs)
- We believe that prices in Jumeirah Lake Towers will increasingly outperform the Dubai Marina as mean reversion takes effect. Likewise, we conclude that the Emirates Living area is attractively valued on a relative basis at current levels



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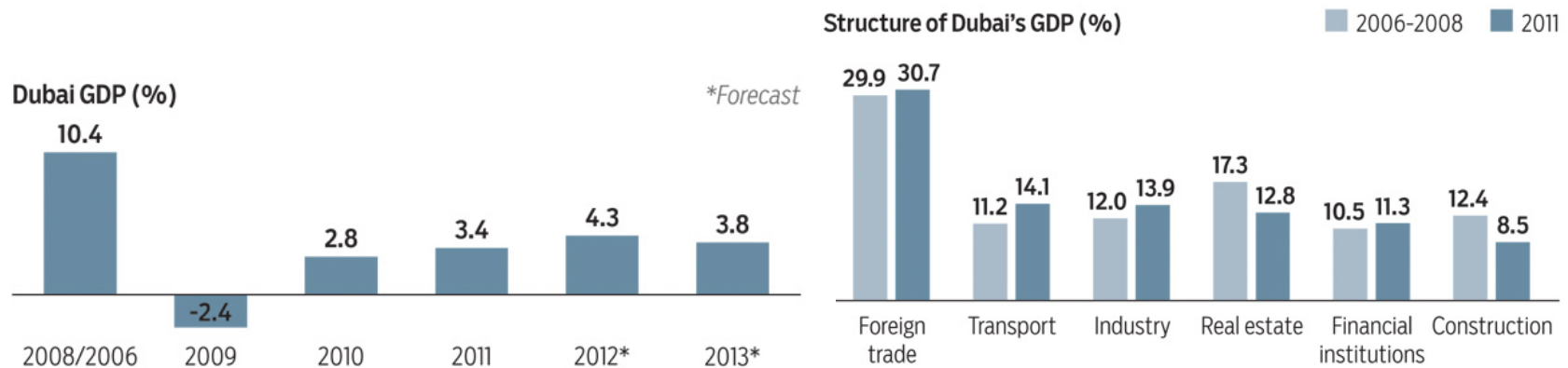
The Home-Ownership Effect



“From the very start, I wanted to build a home-owning society. I wanted every citizen to have a stake in the country” - Lee Kuan Yew



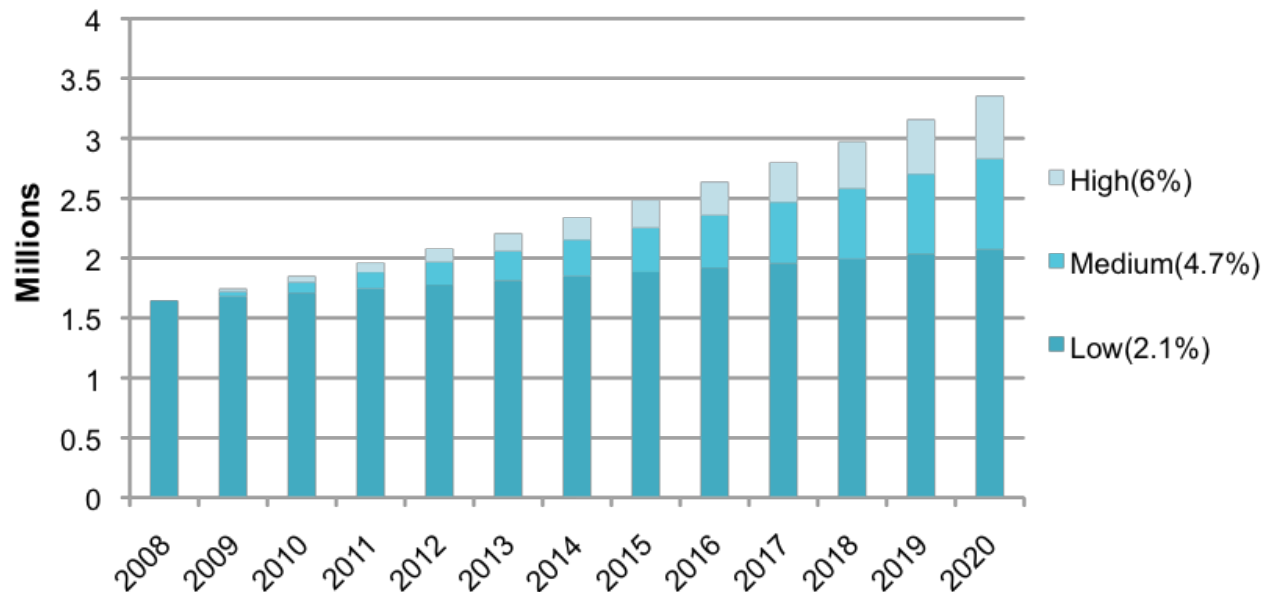
2010-2012: A Return to Sustainable Growth ...



- After the crash of 2008, Dubai's more conservative economic policies have placed it on a firmer footing, allowing for sustainable growth due to its superior infrastructure
- Prudent economic policies have enabled the city state to diversify its growth drivers, with foreign trade, logistics, tourism, financial services and real estate being the key components propelling growth, and acting as magnets for job creation and population growth
- There appears to be an increasing symbiotic relationship between real estate and financial services growth as mortgage finance starts to play a critical role in fostering home ownership of the expatriate community



Expected Population Growth is Key to Dubai's Continued Success ...



Critical to Dubai's growth is the anticipated increase in Dubai's population. An increase in 6 percent per annum (putting Dubai's growth in the top 0.5 % of all city growth in the world) leads to a population surpassing 3.25 million residents by 2020. This is what is expected to stimulate residential and commercial demand. Obviously, if growth rates come on in the low end of the curve, then the cumulative impact on Dubai's population is affected drastically, thus skewing demand dynamics



A Positive Correlation Between Home-Ownership and GDP Growth

Country	Home-Owner Rate	GDP Growth - (CAGR 10 years)
Singapore	93.2% of total	5%
China	55.1% of total	17%
Hong Kong	53.0% of total	4%
Turkey	81.0% of total	5.2%

- A variety of economic studies indicate a strong correlation between GDP growth and home ownership by residents, promoting stability, fostering savings via asset acquisition, and enabling sustainable growth
- 'Stable Housing' forces homeowners to move less frequently than renters, creating in them a sense of responsibility and care for their home and community, effectively creating stakeholders in the country
- Singapore is a prime example of how the corner-stone of the society was built on home-ownership. Singapore has a home-ownership rate of 92%, that is the highest in the world, which was a key factor in fostering its social stability and building the sense of nationhood
- Dubai's introduction of free-hold in 2002, started it on its value-discovery phase, following a similar growth trajectory for development that of Singapore



The Foundation of Dubai's Expatriate Population is Becoming Firmly Rooted in Home Ownership

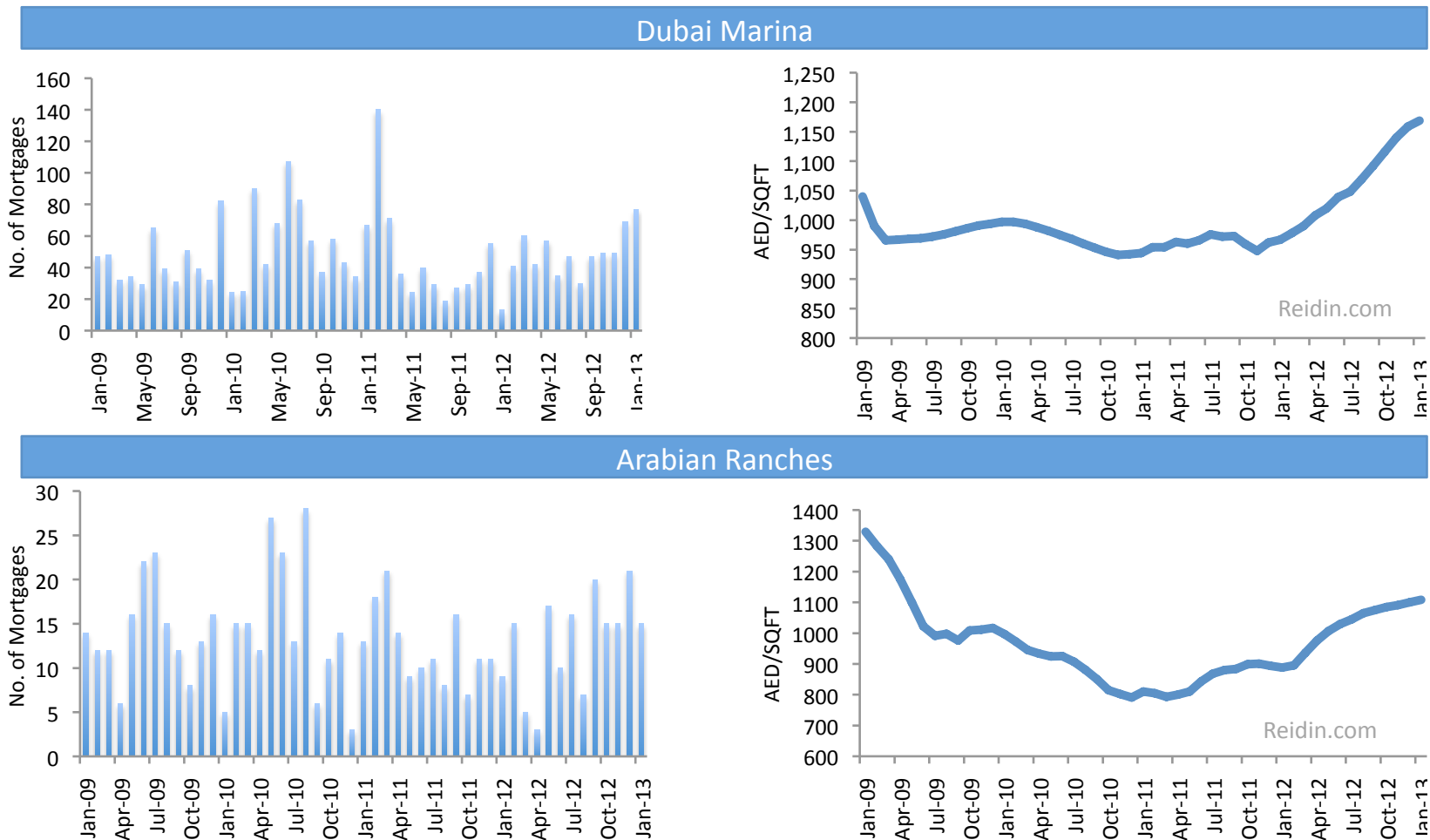
As of Jan 2013	No. of Units	# of Mortgages	% mortgage
Marina	28807	3079	11%
JLT	11450	1233	11%
Greens	4012	915	23%
Arabian Ranches	4259	1050	25%
Springs/Meadows	7035	1940	28%

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- In the above mentioned communities, 15% of the overall units are mortgaged, indicating that owner occupied home ownership accounts for nearly one in six transactions, up by more than 100% in the last four years
- Whilst villa communities have always been preferred by mid to high income end users, thereby reflecting high ownership rates, what is surprising is that the Greens condominium community complex has seen a high preference by owner occupiers, indicating a shift towards apartments
- Of particular interest is also the fact that the JLT area has an almost identical rate of mortgage ownership as the branded blue chip Dubai Marina community



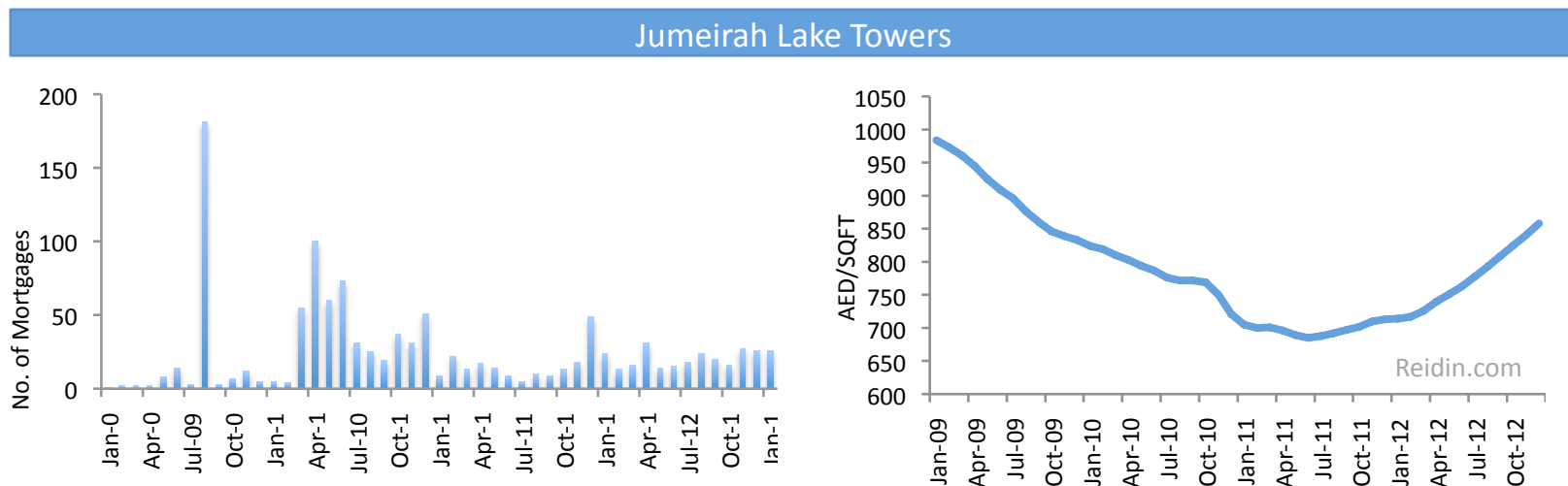
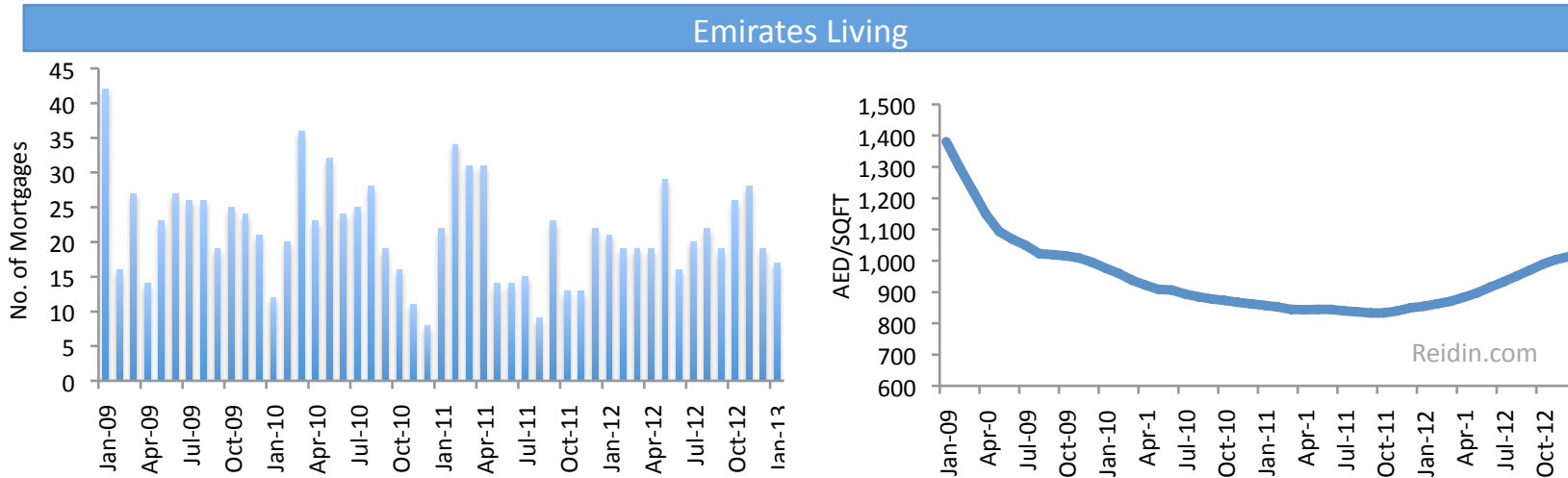
Dubai's Maturing Real Estate Market Indicates the Growth of End-Users...



The above mentioned charts indicate that regardless of price movement, the number of mortgages have exhibited a steadily rising pattern, indicating the shift from an investor dominated market to an end-user owner occupied society in Dubai Marina and Arabian Ranches



Across Various Communities, the Trend of Home Ownership Indicates an Upward Trajectory...



Whilst the Emirates Living communities have more stable owner occupied levels, even Jumeirah Lake Towers indicates that end-user preference for is increasing, indicating a more sustainable price rise



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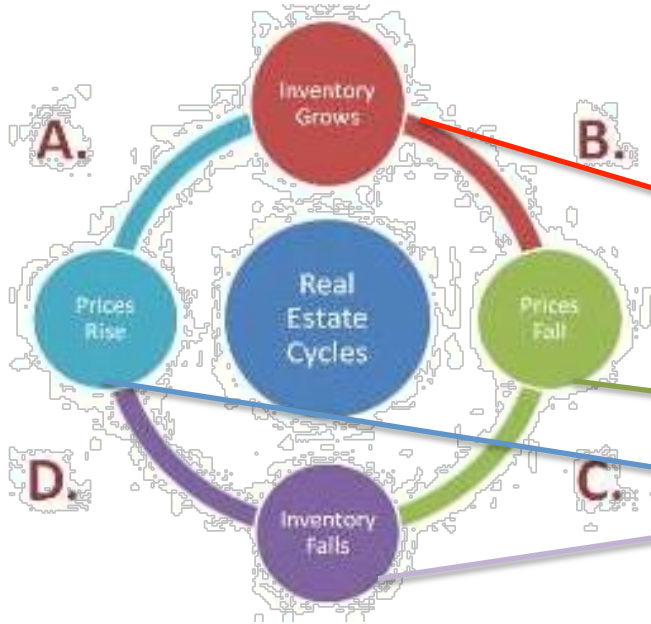
The Mean Reversion Hypothesis



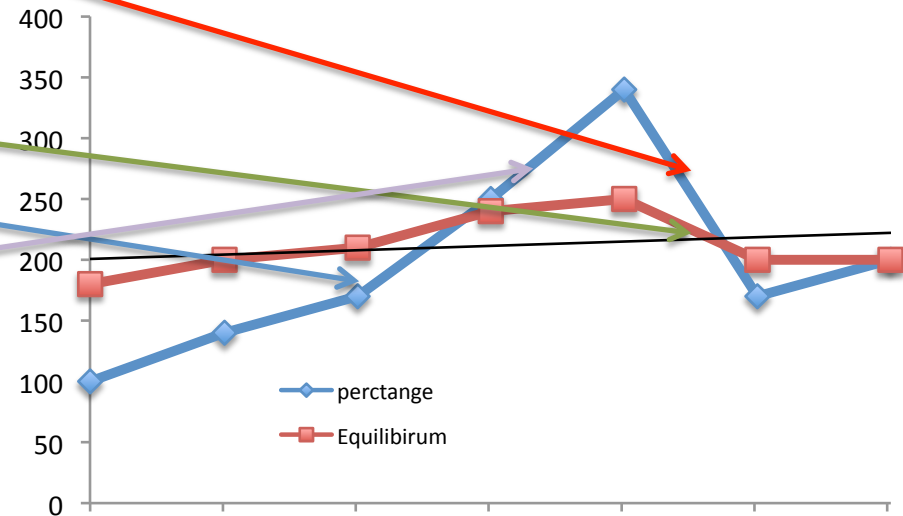
“The Home should be the treasure chest of living” – Le Corbusier



The Mean Reversion Hypothesis Indicates that the Price Rebound Will Continue...

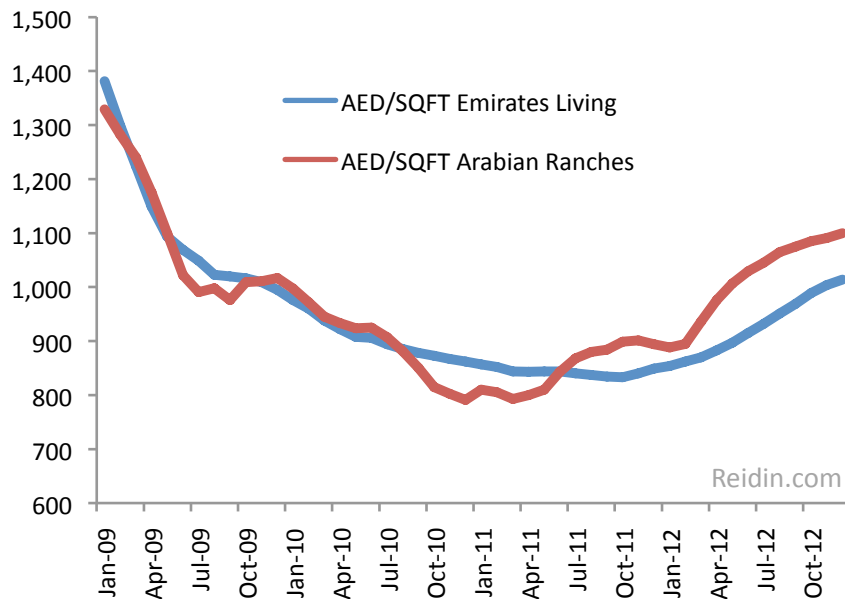


Classic business cycle boom-bust theory indicates a four stage approach which clarifies and elucidates the mean reversion hypothesis that the Dubai real estate market went through. In the last year, a reversion to the equilibrium process has been underway. We opine that this trend will continue



Mean reversion is observed across financial and economic variables, and forms the foundation of the business cycle theory. As prices fluctuate, the underlying hypothesis is that they move around a “mean” or average, and deviations away from this normative hypothesis exerts a pull back towards the central tendency

Location, Location, Location ... Really?



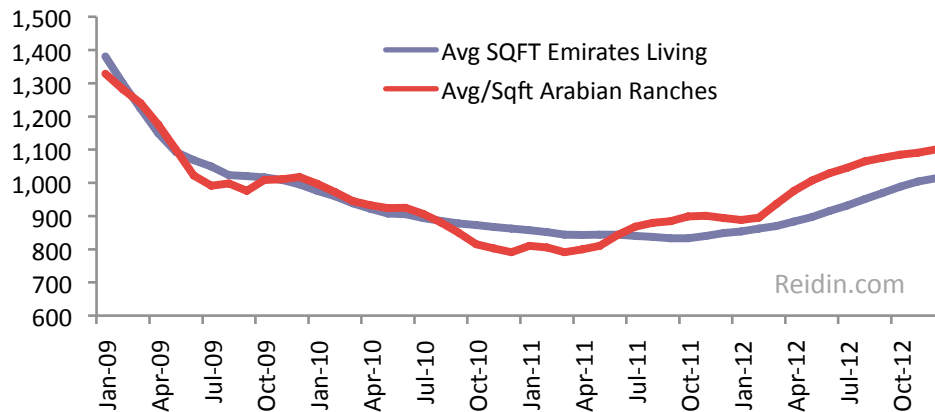
% of Mortgages Registered Against Total Supply		
	Springs/Meadows	Arabian Ranches
2009	4.12%	3.97%
2010	3.61%	4.34%
2011	3.43%	3.50%
2012	3.65%	3.59%
Total	14.81%	15.40%

A four year timeline indicates that the mortgage off take has been fairly stable and consistent in the two abovementioned communities, reinforcing the thesis that end user demand has been fairly inelastic to price movements, and indicating that the inclination to live in high quality communities outweighs price concerns

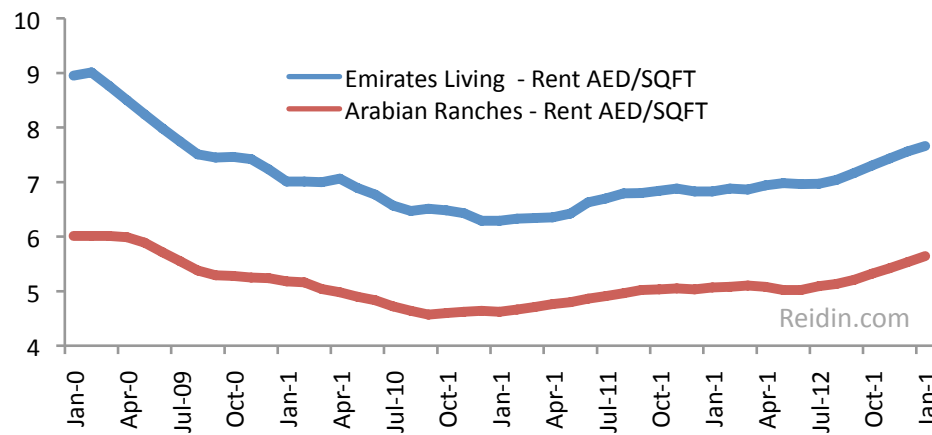
The Arabian Ranches community has outperformed the Emirates Living area, indicating that the price rise in the latter has been more sustainable and less dominated by “hot money”, leading to the conclusion that quality dominates over location. This trend of quality developments in the emirates road corridor is expected to accelerate with the development of Dubai World Central and the Mohammad bin Rashid City



Mean Reversion Indicates Another Inflection Point ...



Date	Gap High	GapLow
Jan'10		4
Dec '10	71	
Jun'11		1
May'12	114	
Dec '12		86

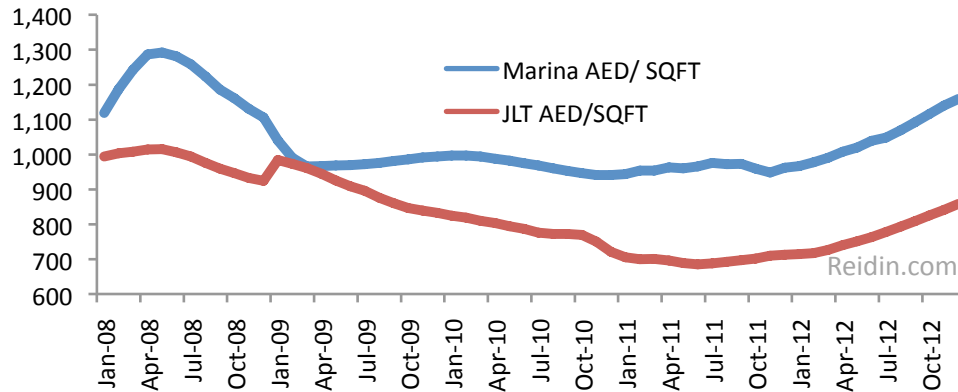


Date	Gap High	Gap Low
Feb '09		3
April '11	1.59	
Jan '13		2.02

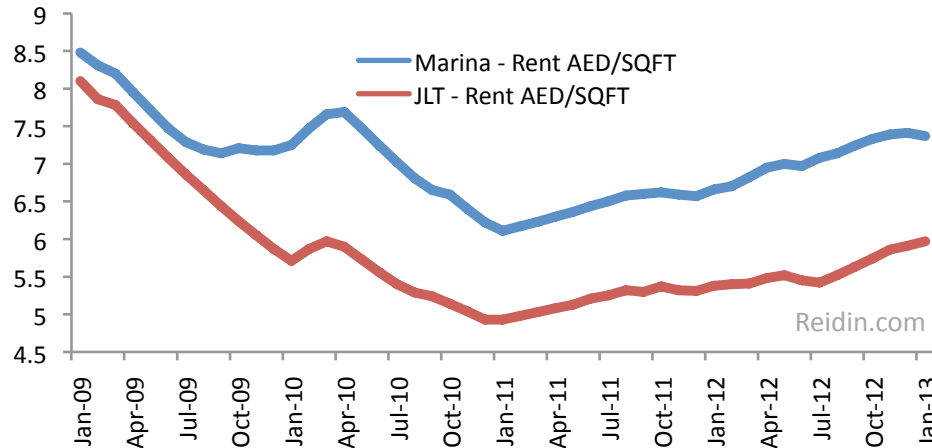
Arabian Ranches has out-performed Emirates Living in the last few years, even though rents in that area have been consistently below. Whilst this indicates the emergence of the two tier market, we opine that Emirates Living is attractively valued at current levels, setting the stage for a strong price resurgence



A Comparison Between Marina and JLT



Date	Gap High	GapLow
Jan '08	125	
Mar'09		5
Jun'11	288	
Nov'11		238
Dec '12	301	



Date	Gap High	Gap Low
Feb '09		0.38
May '10	1.74	
Mar'11		1.2
July '12	1.66	
Dec'12		1.4

A price and rental comparison between the two areas indicates that prices and rentals converged in 2009/2010, before diverging again as the real estate recovery gathered pace. However, as has already been seen, this data reflects the strong preference for GSDs, thus skewing the conclusions



Its All About Quality...!

Area	% Mortgage to Overall Supply
Private Developers	
JLT	11%
Dubai Marina	6.5%
GSDs	
Dubai Marina	20%
Greens	23%
Arabian Ranches	25%
Springs/Meadows	28%

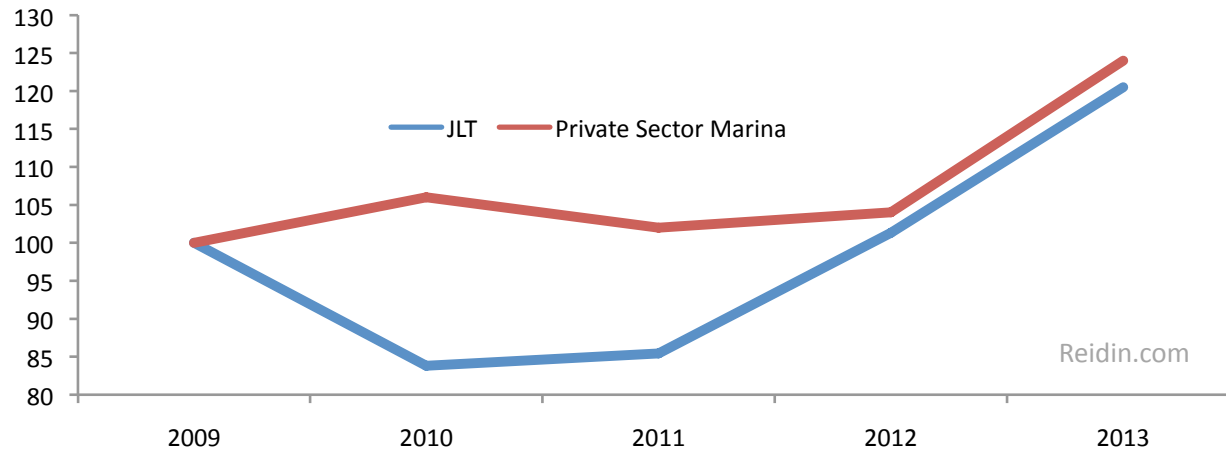
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A granular analysis indicates that end users have an overwhelming preference for GSDs, thus indicating higher and more stable ownership rates in these areas

A comparable analysis of private sector developers across Dubai Marina when compared to JLT indicates a definitive preference (a near 2:1 ratio) for the latter, highlighting the superior qualitative developments in the community



The Renaissance of JLT... A Clear Destination for the Middle and Upper-Middle Class

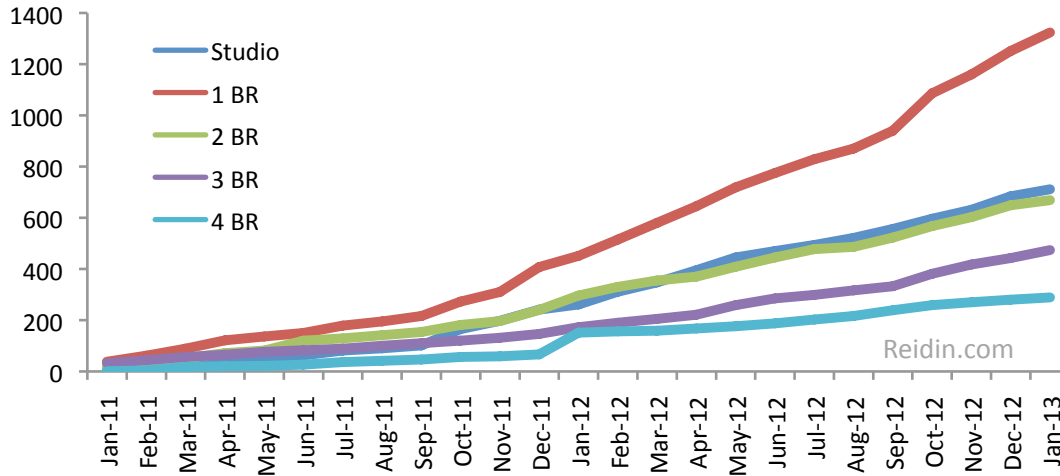


- When compared to private sector developers in the Marina, the mean reversion hypothesis clearly reveals a narrowing of the price gap in the last four years between the two markets (+24% for private sector developers in Dubai Marina, +20% for JLT), indicating that the community is becoming the preferred destination for living in the middle and upper middle class segment
- JLT's attractiveness as a community is only expected to grow with improving infrastructure (including parks, bridges and a burgeoning retail area), and this along with its status of the only free zone freehold community in Dubai which makes it a self contained holistic community
- We opine that JLT's outperformance relative not only to the private sector developers, but rather the overall Dubai Marina will gather steam, making it attractively valued at current levels

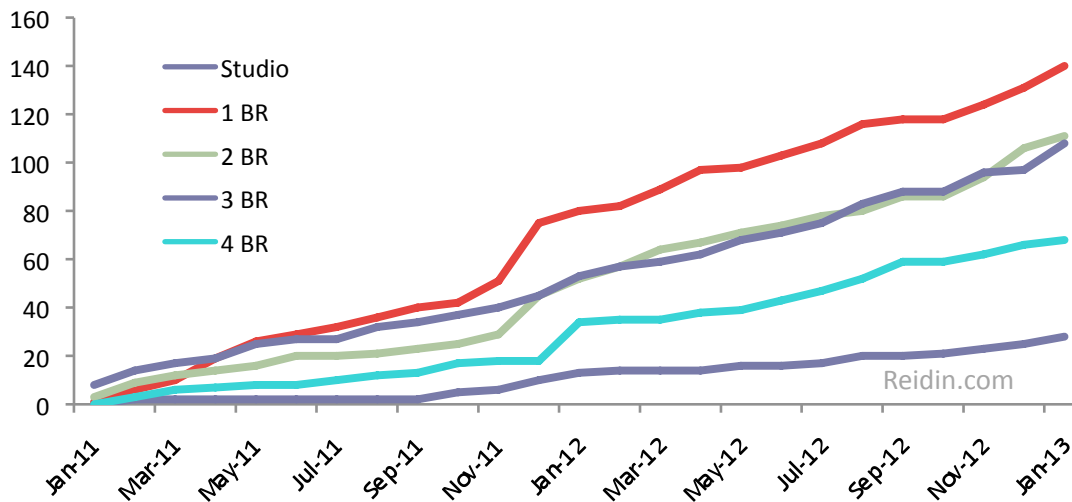


JLT: the Preferred Destination for Smaller Families in the Middle Income Segment ...

Overall Transactions Break-down Unit-Wise for 2012



Mortgage Transactions Break down Unit-Wise for 2012

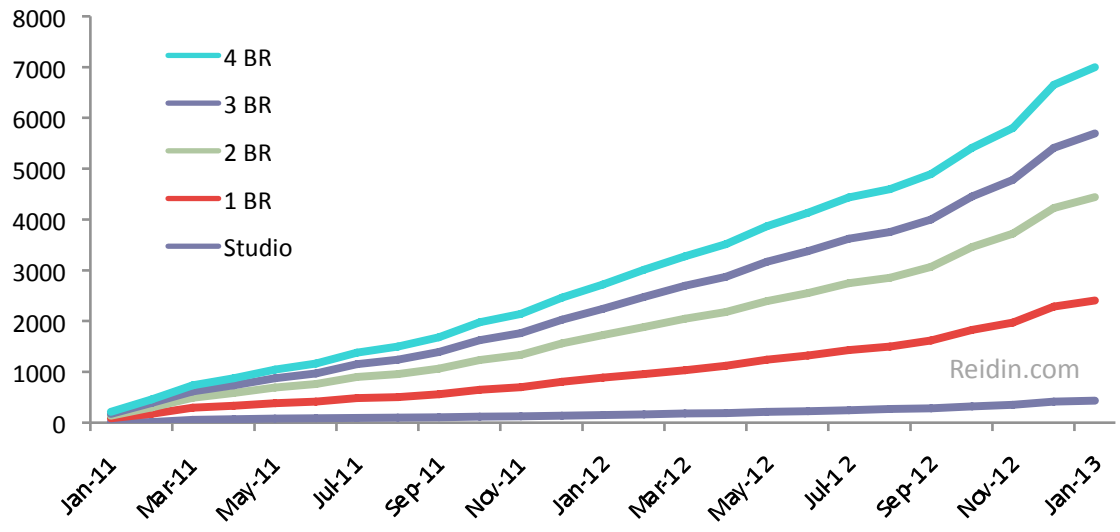


A granular analysis of purchasing patterns reveals that both in terms of mortgaged transactions, as well as overall transactions, 1, 2 and 3 bedroom apartments are clearly the preferred choice for investors as well as end users in the JLT community, laying rest to the hypothesis that studios were a liquid and attractive investment destination in this area. This investment pattern reveals that the price rise is sustainable as families increasingly gravitate to this area to settle down, and capitalize on the community's status as a self contained mixed use locality



... Whereas the Dubai Marina is the Clear Choice for the Affluent Society

Overall Transactions Break-down Unit-Wise



Investment patterns in the Dubai Marina indicate a greater preference for larger units, indicating a combination of “trophy investments” as well as the desire to capitalize on the spectacular views that the sea front community has to offer. This reinforces the assertion that the community has and will continue to attract upper income families and investments, capitalizing on its status as a tourist hot spot. The announcement of the Blue Islands project will only add to this impetus.

Mortgage Transactions Break down Unit-Wise for 2012

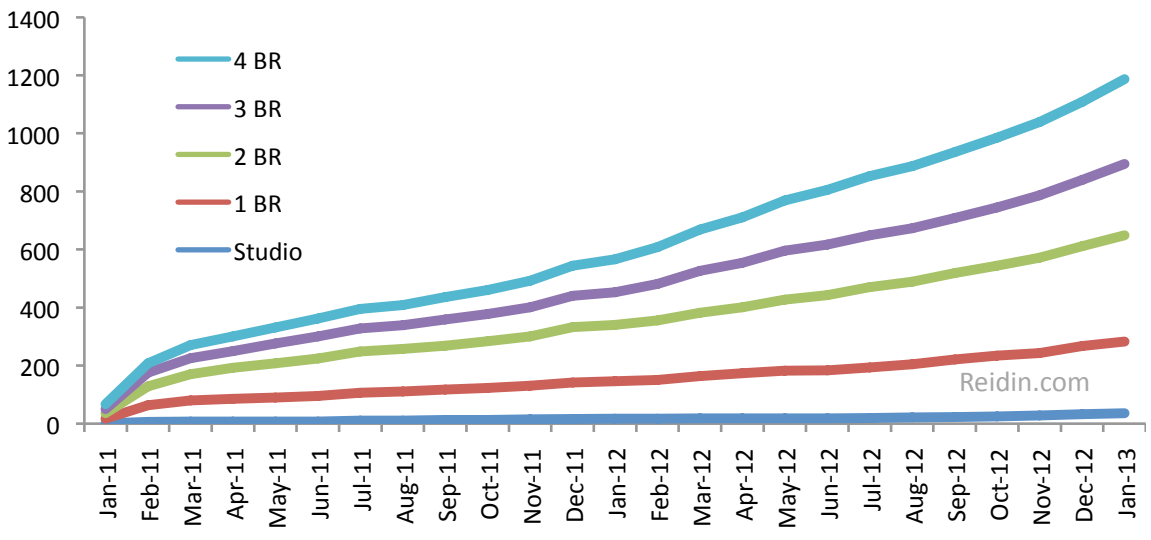


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The Two Tiered Market



“I always ask: How can I help? What can I do for people? How can I improve people's lives? That's part of my value system. It's too late for me to change that system, but it isn't too early for me to say to the world that the Dubai narrative is all about changing people's lives for the better through smart capitalism, willpower and positive energy.” - Sheikh Mohammed bin Rashid Al Maktoum



World Expo 2020 : The Gateway to the Two Tiered Market

- Dubai's race to win the World Expo 2020 with its iconic design and its massive infrastructure, makes it a competitor to reckon with. The venue for the World Expo will be located on 438 hectares of land in Dubai World Central's exhibition district (Dubai Trade Centre Jebel Ali).
- The designated site will be able to cater for 247 participants and over 25 million visitors. The Dubai government has allocated a budget of USD\$ 2-4 billion dollars for developing the infrastructure, creating an anticipated 280,000 jobs from 2013-2021.
- Surrounding communities along Emirates Road such as Dubai Investment Park, Greens Community, Jumeirah Village, Arabian Ranches, the Villa Project, Arjan, Majan and Sports City will largely benefit from the influx of capital and people, as construction on this corridor gathers momentum.
- These communities are expected to be beneficiaries of a strong price resurgence, are enforcing the thesis of the two tiered market



The World Expo Momentum

Feb 27 2013

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Expo 2020 to create 280,000 jobs from 2013-2021

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Wednesday, Feb 27, 2013

Dubai:

Winning the Expo 2020 bid will have far-reaching impact on Dubai's economy, accelerating growth, creating jobs and boosting opportunities for the emirate's main sectors with the legacy it will leave behind.

The Expo is expected to contribute an increase of €28.8 billion to Dubai's GDP and €17.7 billion (Dh86.2 billion) in added value to its economy, according to the Expo 2020 organisers.

The international gathering will create approximately 280,000 jobs in Dubai from 2013 to 2021, with about 10 per cent of those jobs being available from 2013 to 2017, they said.

Expo 2020 site chosen to reflect theme of 'connectivity'

Jebel Ali site is one of the largest proposed for a World Expo

Staff Report

Published: 17:17 February 27, 2013

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Dubai: Helal Saeed Al Marri, Director General of DTCM and CEO of Dubai World Trade Centre, talks about the proposed site for Expo 2020 in Dubai.

Can you tell us more about the proposed Expo 2020 site?

The Expo site has been carefully chosen to reflect the 2020 Expo theme of 'Connectivity' while providing the best possible operational and logistical efficiencies for participants, easy access for all visitors, and a high level of international visibility.

The 438-hectare 'Dubai Trade Centre – Jebel Ali' is one of the largest sites proposed for a World Expo and one of the most seamlessly accessible: a custom bonded Sea-Air logistics corridor that will allow rapid transit of people from airports and ports in both Abu Dhabi and Dubai.

The site is located next to the new Al Maktoum International Airport and in close proximity to Jebel Ali Port. Equidistant between Dubai and Abu Dhabi, it is 30 minutes from Dubai International Airport and 40 minutes from Abu Dhabi International Airport.

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World Expo 2020: New city to rise within Dubai

Site chosen is one of the largest ever earmarked for an Expo world fair

By Zaher BitarSenior Reporter

Published: 13:34 February 27, 2013

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Image Credit: WAM

An artist's impression of the site where the World Expo 2020 will be held. The design will be able to cater to over 247 participants and over 25 million visitors.



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Through the Looking Glass for 2013



"We should always be Practical, Realistic and Optimistic" – HH Sheikh Mohammad Bin Rashid Al Maktoum



Conclusions

Dubai's economic policies have put it on a firm footing for stable and consistent economic growth, paving the way for sustained population growth and housing to match its ambitions of a global hub

The emphasis and focus will shift increasingly to the Emirates Road corridor as construction in that area gathers pace. This will facilitate the migration effect to surrounding complete communities

Home Ownership on the Rise

- 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
- Dubai appears well on the course for sustainable growth, making the revival of the real estate market less speculative and more fundamental in nature

The Two Tiered Market

- Dubai World Central and the al Maktoum airport will be the magnet for jobs and communities that will develop over the next few years
- The World Expo bid will only act as a fillip to this; creating thousands of jobs, and stimulating growth as residents move to the emirates road corridor
- We opine that this market will exhibit steady double digit growth, accentuating and accelerating the trend of home ownership as Dubai's population continues to grow at a CAGR OF 6%

The Mean Reversion Hypothesis

- Prices have always exhibited mean reverting tendencies when an inter-community analysis is done
- Emirates Living area appears to be undervalued on a relative basis to Arabian Ranches
- JLT is poised to outperform Dubai Marina as middle income home ownership gathers pace

Outlook for 2013

- 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
- 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
- Rental rates in these areas are expected to rise by 15-20% this year



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 opportunities manor



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

All source data has been compiled using data from Reidin.com and the Dubai Land Department

