

STRICTLY CONFIDENTIAL



## Dubai: The Metro Effect

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# Executive Summary

- The 'metro effect' is when an opening of a metro station leads to higher home values and rents within the vicinity. This phenomena has been widely researched, where the most popular outcome has been a positive correlation between the two variables. However, due to various reasons in certain cases (ie Sanfransico) the metro has actually had an adverse effect on property prices.
- The two communities that were the most measurable in freehold Dubai were JLT and Marina, due to the orientation and zoning of the station. Both communities showed similar results. A price analysis was conducted pre/post the opening of the metro of buildings in close proximity to the station against the overall community index. Overall there was no obvious price impact of buildings in close the proximity to metro station in either community.
- However, in both cases an increase in transactional activity was witnessed during the time of the completion of the metro. We opine that this surge was speculators trying to capitalize on the 'metro effect'.
- In conclusion, whilst there is no discernible impact, this is likely due to the fact that not enough time has lapsed for this impact to have been felt (20 years) and individual micro factors are dominating the price index. However, as public transportation becomes more embedded in the fabric of domestic society (as indicated in a recent study conducted by the National), there will be a positive impact.

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# The Dubai Metrorail System



“Transportation is the center of the world! It is the glue of our daily lives. When it goes well, we don't see it. When it goes wrong, it negatively colors our day, makes us feel angry and impotent, curtails our possibilities” – Robin Chase

# The 'Effect of Metro-stations' on Real Estate Prices in Other Metropolitan Cities

City	Effect of Metro on Real estate Prices
New York (USA) <sup>1</sup>	Positive
Sacramento (USA) <sup>1</sup>	Neutral
San Francisco (USA) <sup>1</sup>	Negative
Toronto (Canada) <sup>2</sup>	Positive
London (UK) <sup>2</sup>	Positive

In theory, proximity to public transport leads to higher home values and rents. The various studies conducted on the aforementioned hypothesis show that the premium varies from as little as 3% to a maximum of 45% (Cervero et al. 2004). However, the reverse has also been witnessed and when a microstructure analysis is conducted, the positive or negative impact that a metro rail system has varies from city to city and is in turn a function of the population income dynamics and how the city has evolved over time in terms of areas of access to dense agglomerations.

In the table above, whilst cities such as New York, London and Toronto have experienced a positive impact on real estate prices that are in proximity to metro stations, there has been no impact witnessed in Sacramento, and San Francisco actually revealed a mildly negative impact on residential prices.

Source:

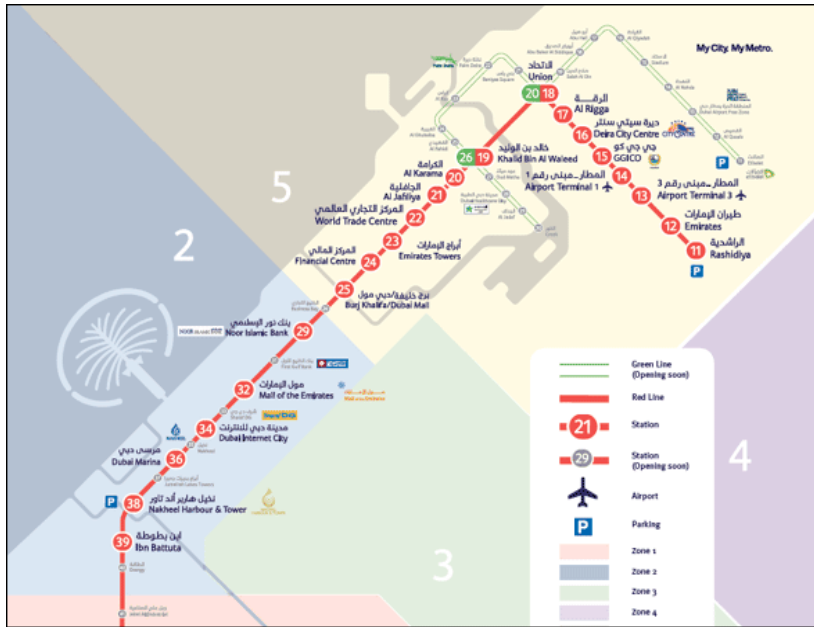
1 - [https://drcog.org/documents/The\\_effect\\_of\\_Rail\\_Transit\\_on\\_Property\\_Values\\_Summary\\_of\\_Studies1.pdf](https://drcog.org/documents/The_effect_of_Rail_Transit_on_Property_Values_Summary_of_Studies1.pdf)

2 - <http://reconnectingamerica.org/assets/Uploads/bestpractice083.pdf>

3 - <http://core.ac.uk/download/pdf/6891699.pdf>

4 - [http://www.nhc.org/media/documents/TransitImpactonHsgCostsfinal\\_-\\_Aug\\_10\\_20111.pdf](http://www.nhc.org/media/documents/TransitImpactonHsgCostsfinal_-_Aug_10_20111.pdf)

# The Dubai Metro System



Date of Operations	Station
Sep-09	Rashidiya-Nakheel Harbor & Tower (intermediate stations Airport Terminal 3, City Centre, Al Rigga, Union Square, Khalid Bin Al Waleed, Al Jaffiliya, Financial Centre, Mall of the Emirates)
Jan-10	Burj Khalifa / Dubai Mall station
Apr-10	Emirates Airline Station, Airport Terminal 1 Station, Al Karama Station, Emirates Towers Station, TECOM Station, Dubai Marina Station and Ibn Batutta Mall Station
May-10	Al Quoz (Noor Islamic Bank) Station, World Trade Center Station and GGICO (Al Garhoud)
Oct-10	Business Bay, First Gulf Bank (Burj Al Arab), Sharaf DG (Al Barsha), Nakheel (Emirates Golf Club) and Jumeirah Lake Towers Stations
Mar-11	Jebel Ali / JAFZA Terminus Station
Dec-12	Danube / Jebel Ali Industrial Station

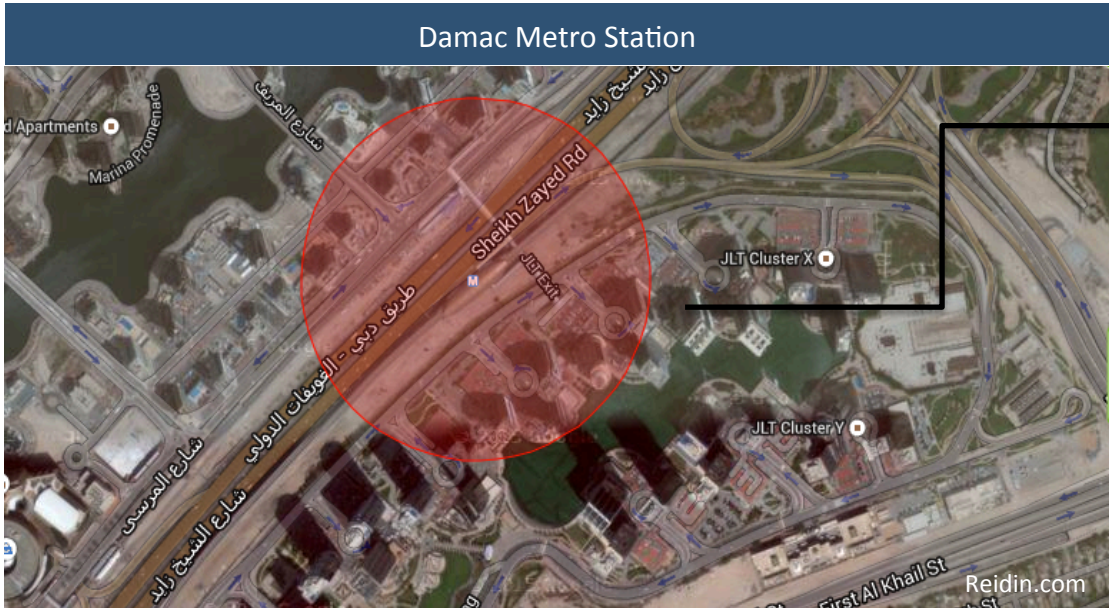
The Dubai's Metro station started construction in August 2005, the red-line was completed in September 2009, while the green line started operations in March of 2010. Real Estate agents use the conventional theory of properties nearer to public transport having superior growth rates in order to sell their stock. In freehold areas, JLT and Marina would be the most measurable because of the orientation and zoning of the station within these two communities.

## JLT and the Metro



“Great things are not accomplished by those who yield to trends and fads and popular opinion” - Jack Kerouac

# JLT: Buildings to have been Effected by the Metro Station



Cluster S

- Green Lakes Towers 1
- Green Lakes Towers 2
- Green Lakes Towers 3

Cluster U

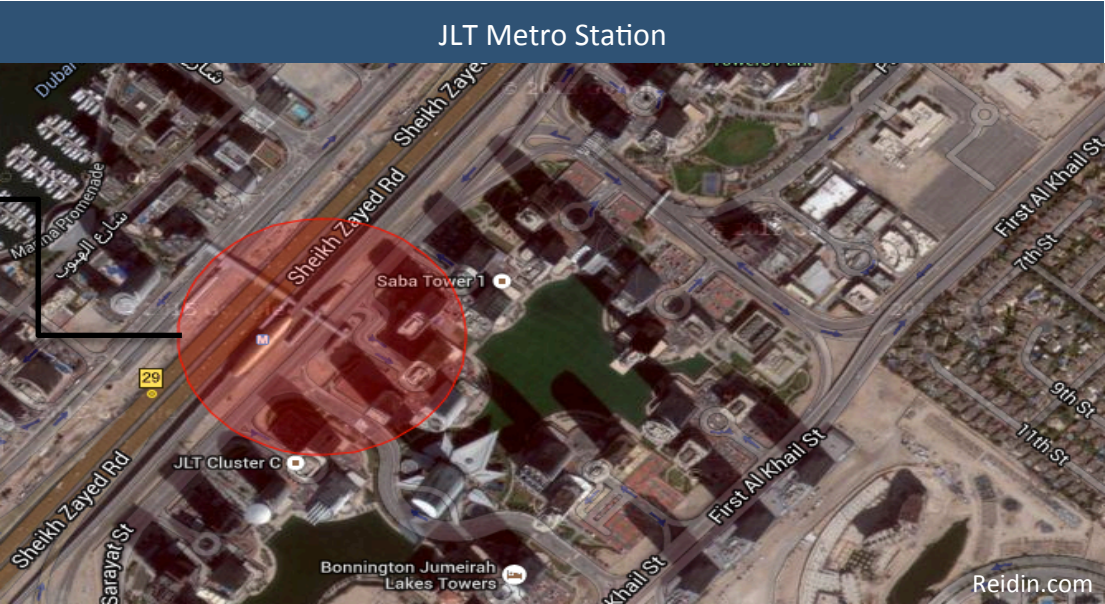
- Al Seef Tower 1
- Al Seef Tower 2
- Tamweel Tower

Cluster C

- Gold crest Executive
- Fortune Tower
- Palladium

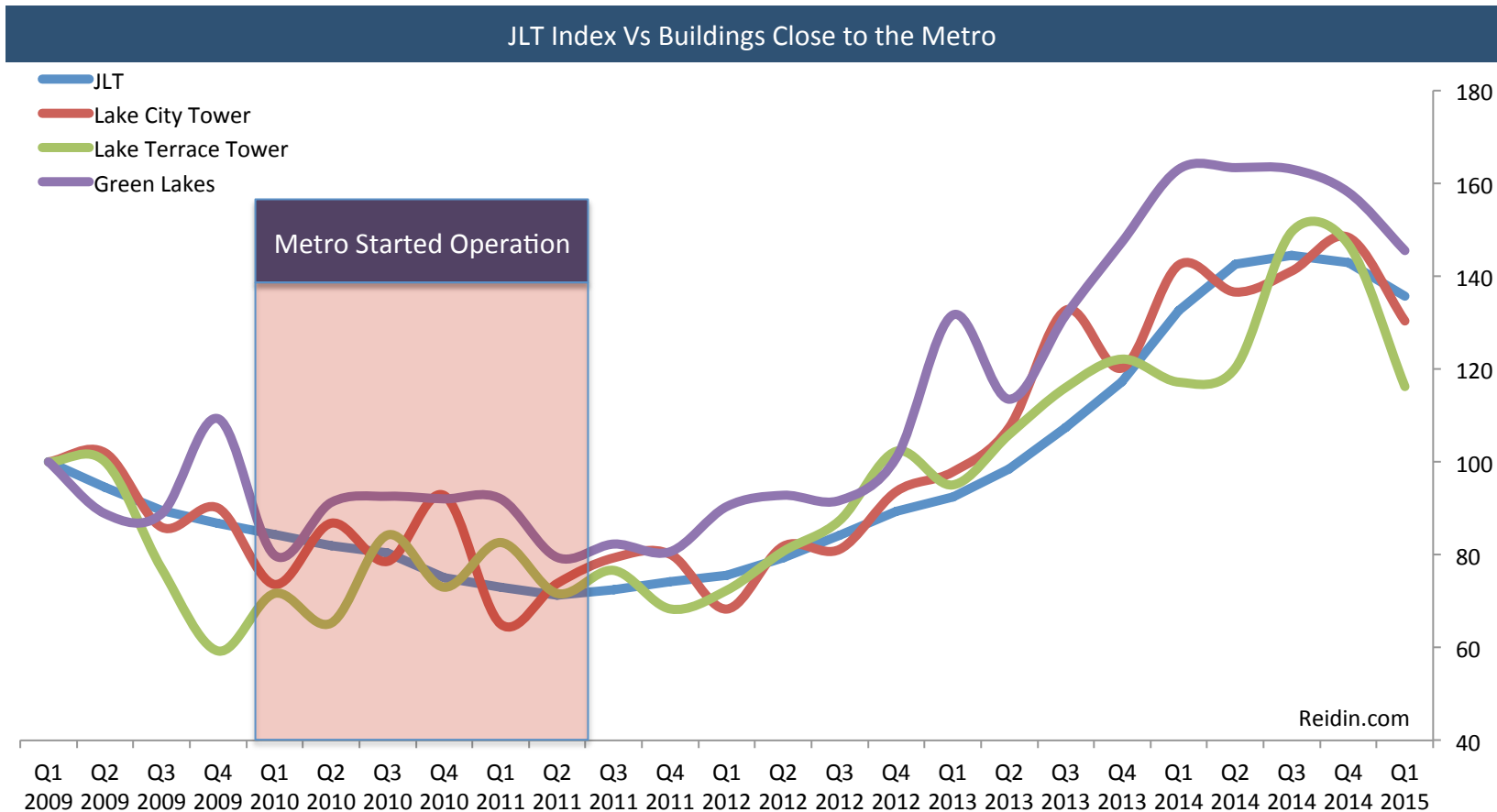
Cluster D

- Lake City Tower
- Lake Terrace Tower
- Indigo Tower





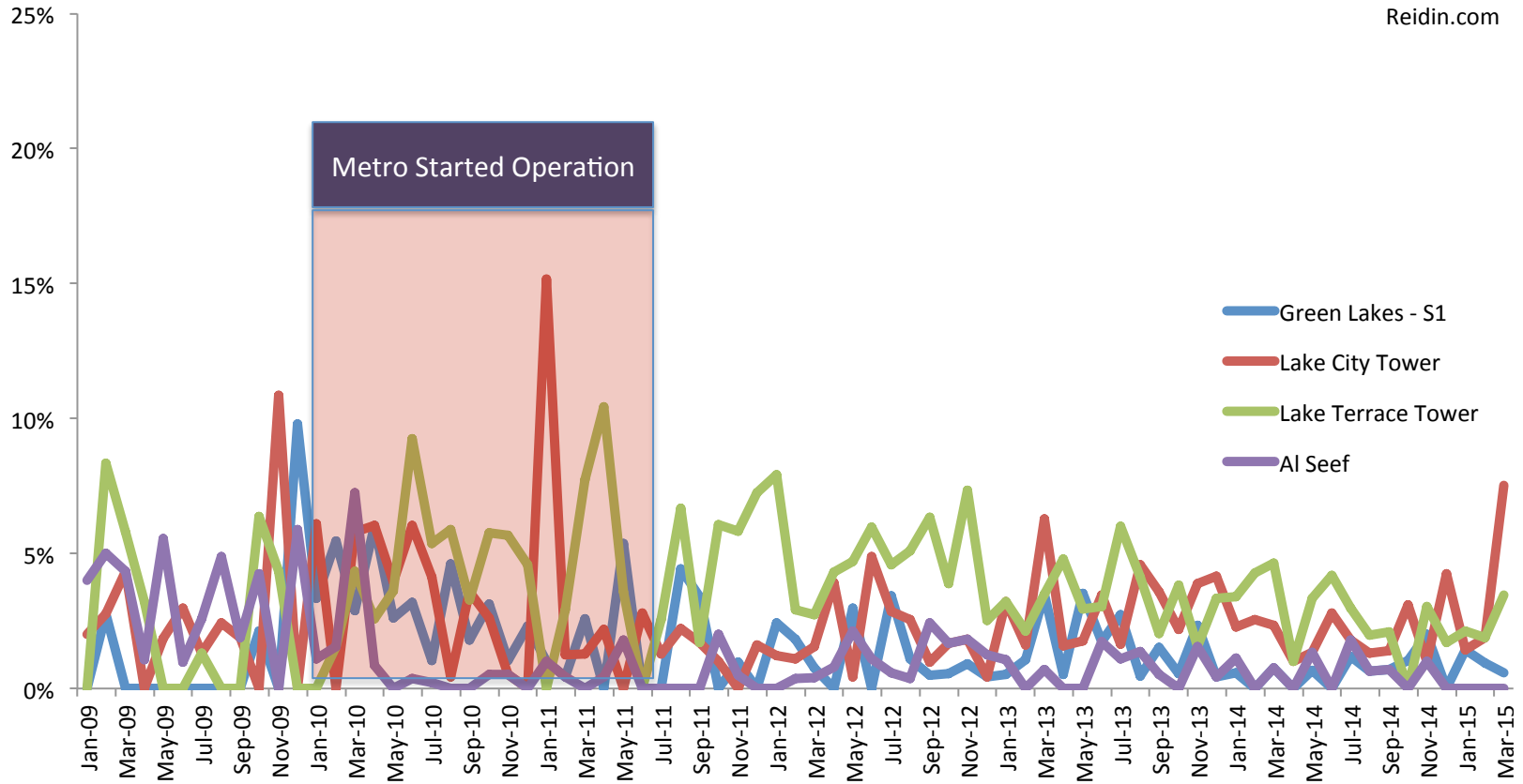
# Metro has No Direct Effect on 'Prices'



A 6 year price data analysis reveals that there is no obvious impact of the proximity to the metro stations in the JLT area, and differentials in price performance were explained by the quality of the building fit-out rather than the proximity itself. Based on the proximity criteria defined in the earlier slide, more towers underperformed the JLT index than the ones that outperformed.

# Speculative Transactional activity increases in anticipation of the effect

Cash Transactions of Buildings Close to the Metro as a Percentage of Overall Cash Transactions



The above chart clearly reveals that there was a noticeable jump in transactional activity in the towers close to the metro stations; this is likely explained by the exuberance of speculative investors aiming to capitalize on the “metro effect”.

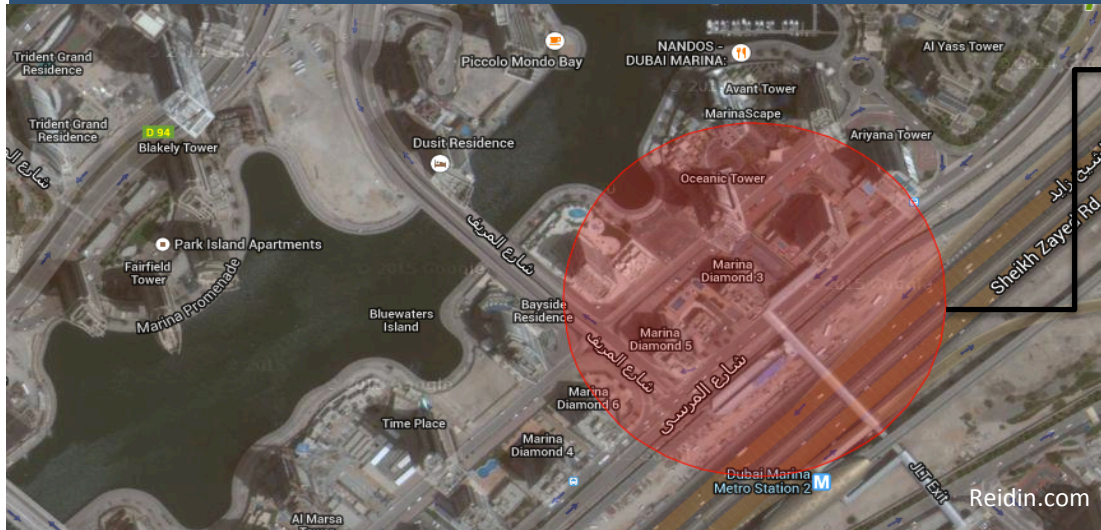
## Marina and the Metro



“It is a capital mistake to theorize before one has data” - Arthur Conan Doyle

# Marina: Buildings to have been affected by the Metro Station

Damac Metro Station



Ariyana Tower

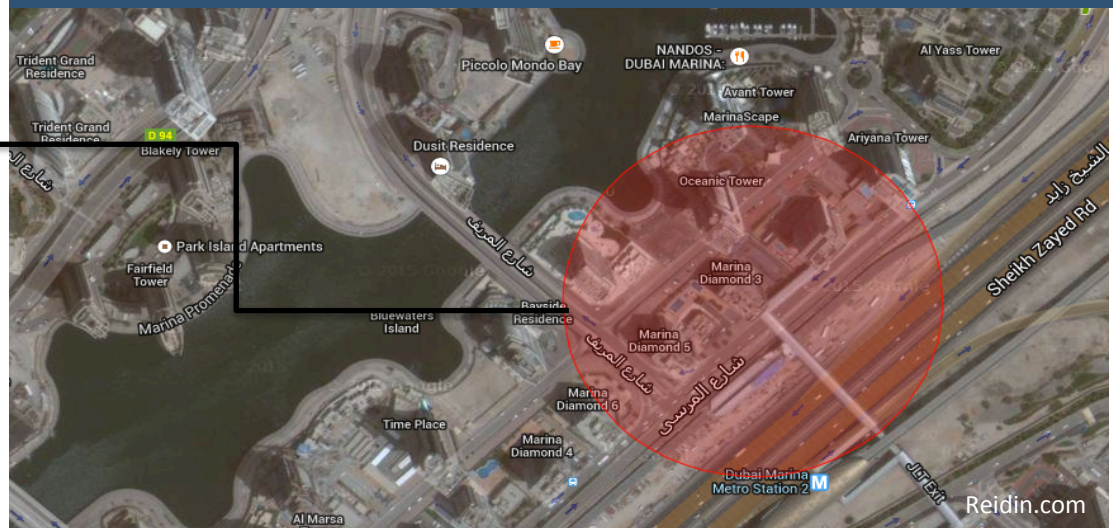
Oceanic Tower

Marina Diamond 3

Marina Diamond 5

Horizon Tower  
Marina Residence  
Cascade Tower

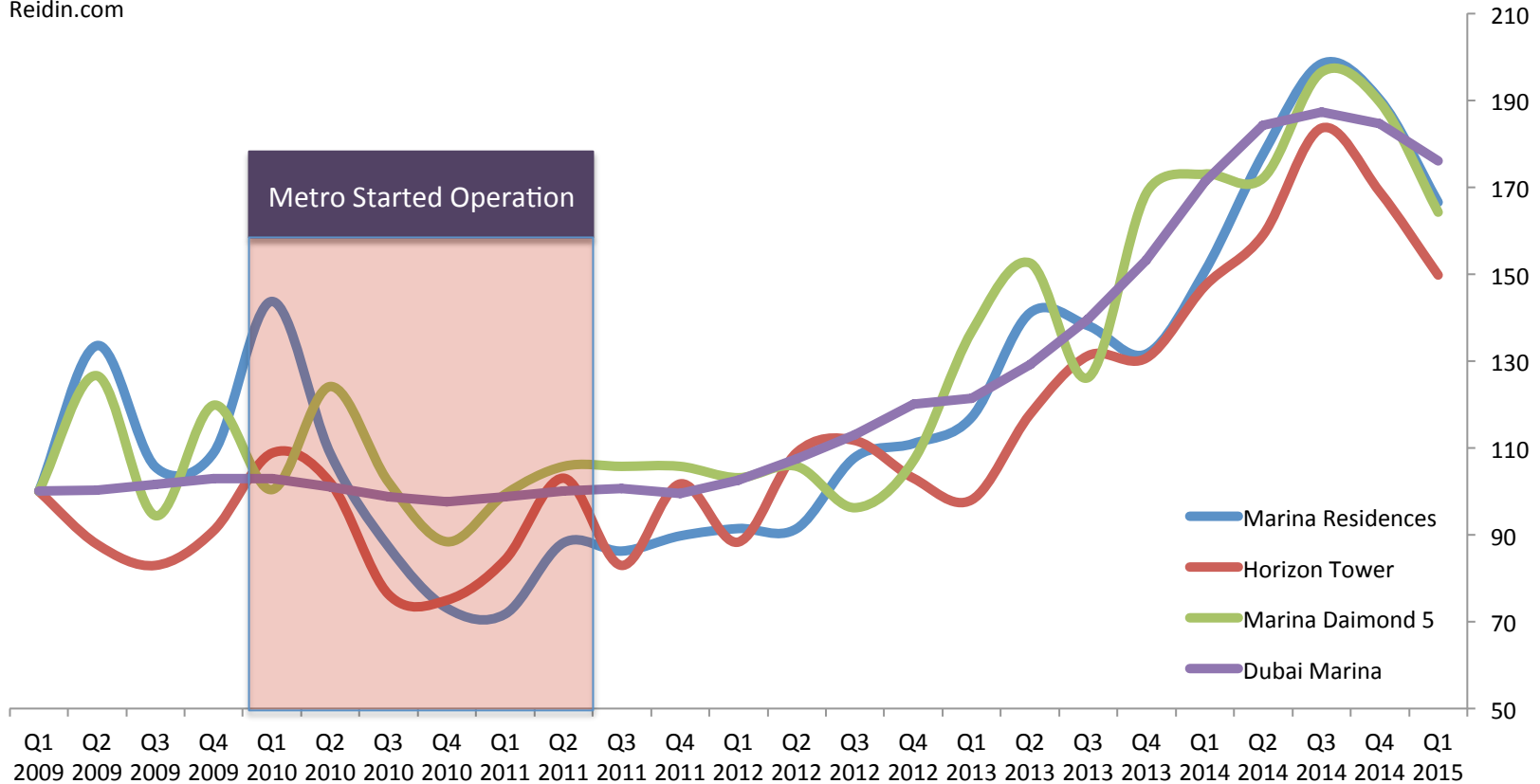
JLT Metro Station



# In Marina, there appears to be a mildly negative effect!

Marina Index Vs Buildings Close to the Metro

Reidin.com

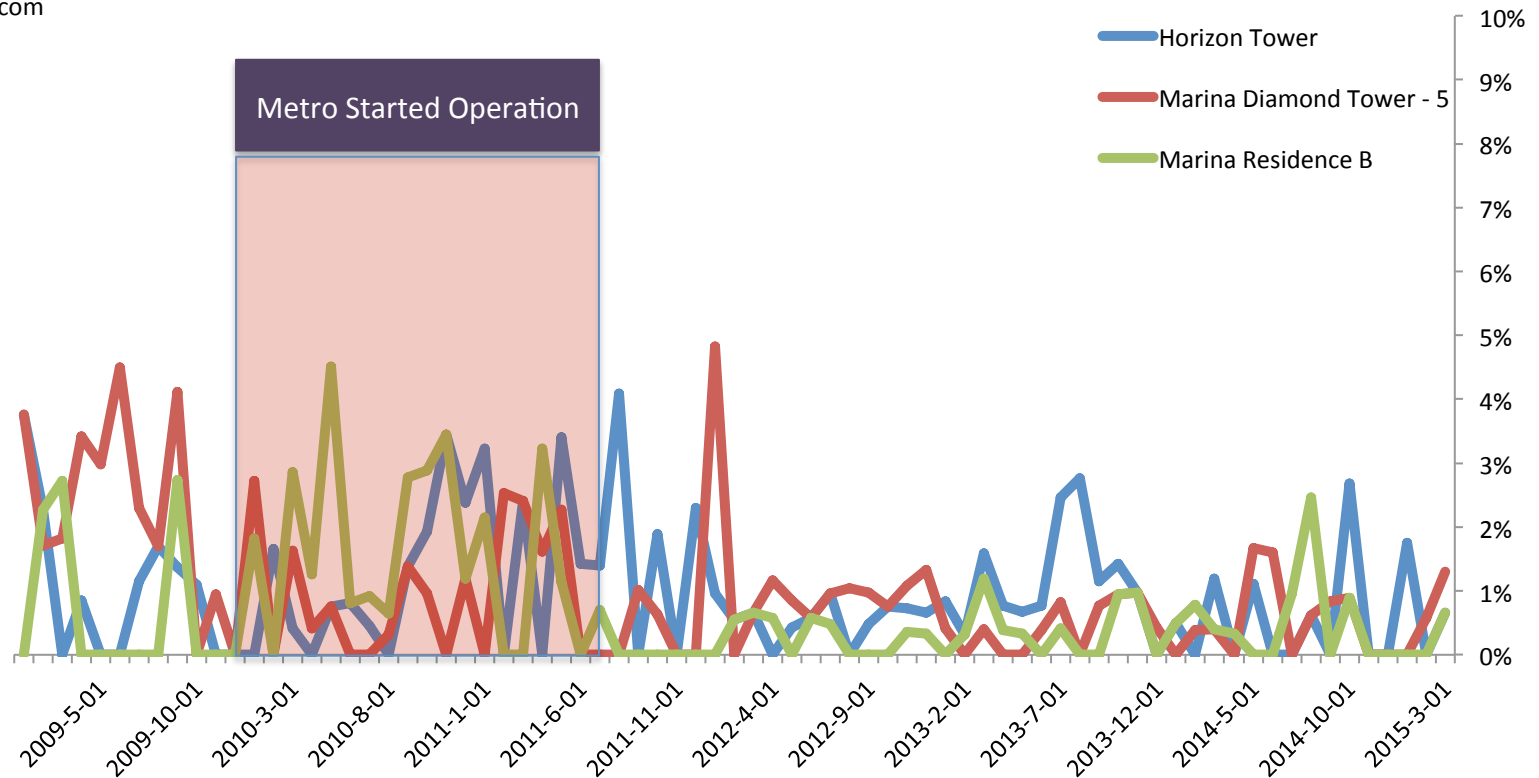


In the Dubai Marina area, surprisingly, there appears to be a mildly negative impact with the proximity to the metro stations, as all the towers studied within the proximity criteria as defined by the previous slide underperformed the Marina price index. Again this is likely due to the superior build quality that other parts of the Marina have, and any positive impact may well be detected over longer periods of time.

# More subdued rise in activity in Marina

Cash Transactions of Buildings Close to the Metro as a Percentage of Overall Cash Transactions

Reidin.com



Transactional activity records a spike here too, similar to the trend that was witnessed in JLT, as investors likely jumped on the bandwagon. Over time, the speculative activity has receded, as no price impact has led to investors moving away from these areas, and homeowners starting to assert their impact.

# Conclusions

*In theory, proximity to public transport leads to higher home values and rents*

*No measurable price impact currently has been detected in the two observed areas; this however, is due more to individual "build quality" factors as well as income demographics and a positive impact over a longer period of time may well be observed.*

## 'The Metro Effect'

In developed countries, there have been mixed findings on the metro rail effects, and effects have been felt over a long term (20 years) on real estate prices.

However, there have been enough instances where the opposite effect holds true, showing that a positive 'metro effect' is not as easily predicable.

The two freehold communities that would have highest impact was JLT and Marina, due to the close proximity of the metro station and residential Buildings

## Transactional Activity

Both communities saw an uptick of cash transactions for buildings closer to the metro stations within a one year time period of its opening (6 month pre and 6 month post).

This was due to enhanced speculative activity anticipating price rises; this subsided as the price impact did not materialize.

## Price Action

The 'Metro Effect' has had no definitive effect on price action in both JLT and Marina, pre and post the opening of the metro station in 2010.

Within JLT the buildings with better fit outs (ie Green Lakes) had superior growth rates relative to the over JLT index.

A similar trend has been witnessed in Dubai Marina as well. As the buildings closer to the metro stations have inferior finishing to the overall quality in the community.

## Conclusion

The 'metro effect' in most studies have been over a 20 year time frame. Although, there is no current impact of prices on surrounding buildings in Dubai, that doesn't mean the effect doesn't exist.

For any impact to be felt, there has to be a greater usage of public transportation and wider access to the city suburbs. We opine that over time, there will be a positive impact on both residential and commercial prices, but that this impact will vary from community to community.



GCP 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.

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# Research Database

Title	Report	Date
Renters Ball: The Dynamics of the Tenancy Market in Dubai	REIDIN - UNITAS Real Estate Market Reports	19-Apr-15
Dubai: The Path of Symbiosis	REIDIN - UNITAS Real Estate Market Reports	22-Mar-15
Dubai: Boom-Bust-ology	REIDIN - UNITAS Real Estate Market Reports	8-Mar-15
Dubai: Is Commercial Realty Commercially Viable?	REIDIN - UNITAS Real Estate Market Reports	2-Feb-15
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Is there such thing as the "Cityscape Effect"?	REIDIN - UNITAS Real Estate Market Reports	18-Sep-14
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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
Dubai: The Trophy Buying Phenomena	REIDIN - UNITAS Real Estate Market Reports	22-May-14
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Dubai: Buy Land Where the City Ends	REIDIN - UNITAS Real Estate Market Reports	7-Apr-14
Dubai: A Closer Look into 2013 - Q1 2014	REIDIN - UNITAS Real Estate Market Reports	13-Feb-14
Dubai: What Now? - Q4 2013	REIDIN - UNITAS Real Estate Market Reports	28-Nov-13
Dubai: If You Build It They Will Come - Q3 2013	REIDIN - UNITAS Real Estate Market Reports	30-Sep-13
Dubai: The City is Built Upon it's Commerce - Q1 2013	REIDIN - UNITAS Real Estate Market Reports	11-Apr-13
Home Ownership: Dubai's Road to Prosperity 2013	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