



Mansions and Maisonettes: An Examination of Horizontal Living in Dubai

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Executive Summary

- A dissection of Dubai's horizontal living space reveals that existing supply is heavily skewed towards the villa segment (63%) versus townhouses (32%) and mansions (5%). Dubai has become top-heavy, as historically, projects were concentrated at the higher-end enticing the leisure class and investors. However, in the last year developers have shifted course to service the mid-income housing segment trying to correct the lopsidedness that currently exist within the market. A granular analysis of up-coming supply reveals that there is a higher concentration in the townhouse space compared to the historical topography, implying a shift towards affordability is under way.
- An analysis of horizontal living in the luxury villa and mansion segment reveals an upward sloping Q-ratio curve (market value/cost value); this implies that there is a likelihood of prices at the higher end falling as prices converge towards replacement value.
- Price correction is already underway, with indices revealing an average price fall of 12-15%. We opine that given the relative scarcity of transactions, the price drop has been somewhat higher; in both the listed and transacted space, there have been price drops of as much as 25% that have been recorded in the high end villa space.
- In terms of rental options, horizontal living spaces allow more economical options in the larger unit types (four and five-bedrooms) compared to apartments. In the apartment space four-bedrooms typically crossover in to the penthouse segment, making horizontal living a viable option for the end-user. This is the strongest indicator of the "suburbanization" effect that is underway throughout the city as families make the decision to move away from city centers in order to capitalize on the rent/price differentials.

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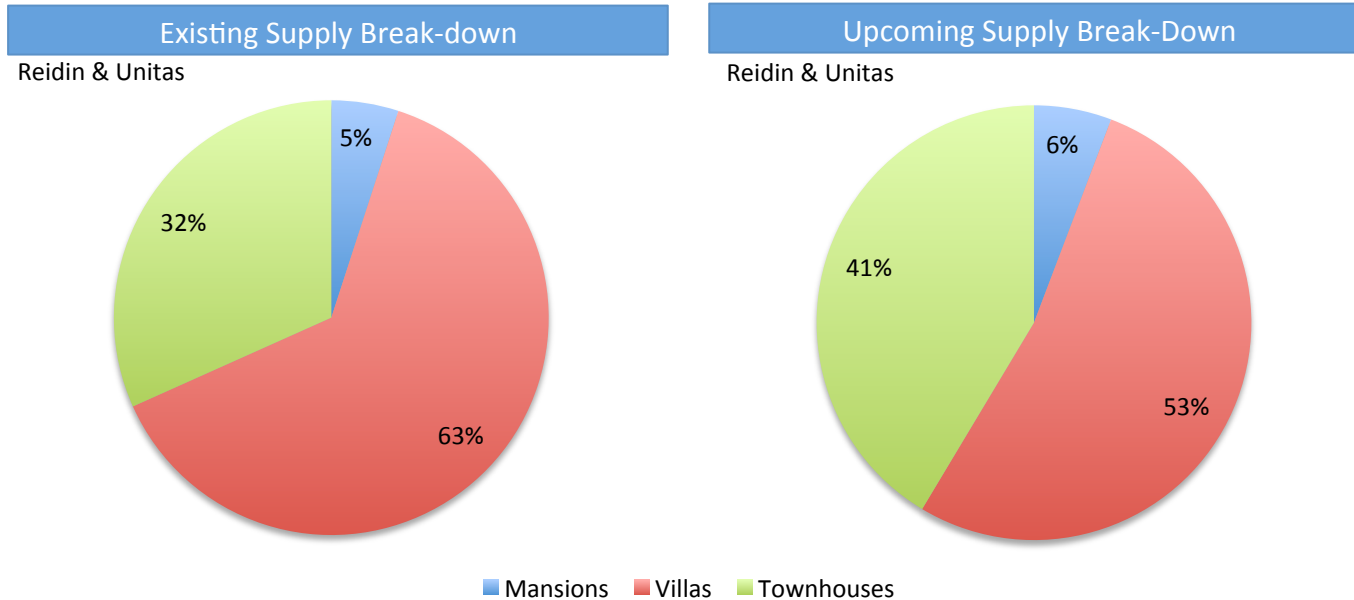
Landscape of Freehold Horizontal Living



“We live in a society bloated with data yet starved for wisdom. We're connected 24/7, yet anxiety, fear, depression and loneliness is at an all-time high. We must course-correct”

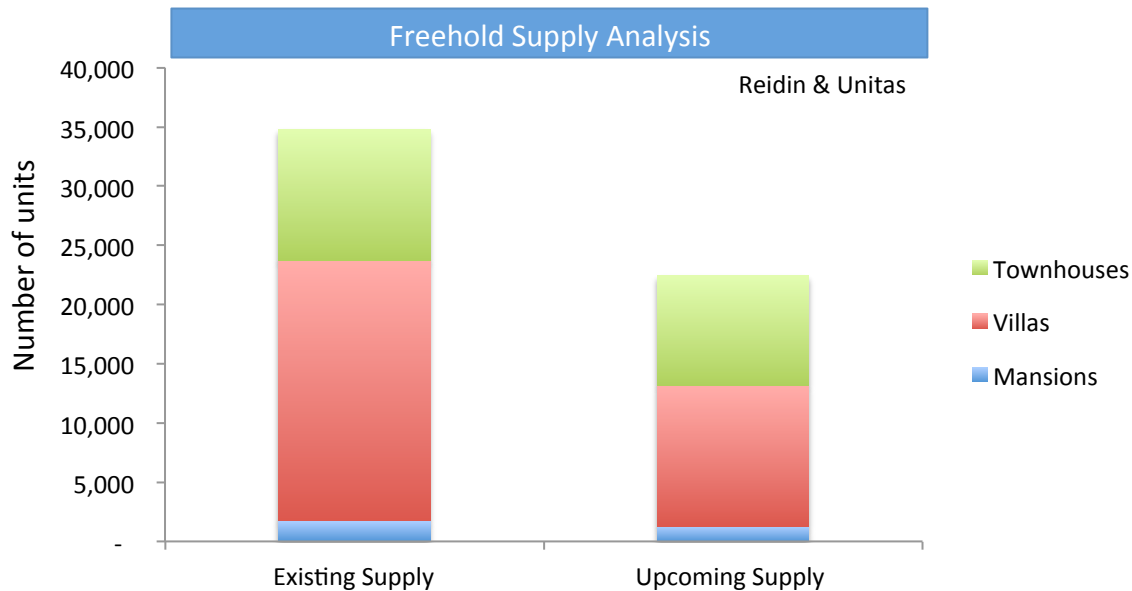
– Elizabeth Lindsey

Landscape of the Freehold Horizontal Market



A dissection of the horizontal space reveals that existing supply in monitored areas is heavily skewed towards the villa segment. Historically, Dubai has been top-heavy, as developers launched projects to entice the affluent class, along with the investor category. However, as developers have recently shifted course towards the affordable segment, project launches such as Nshama Townhouses and Warsan Village pave the way for cheaper options within the market. Such offerings have shifted the topography of upcoming supply towards townhouses.

Supply Analysis of the Freehold Horizontal Living



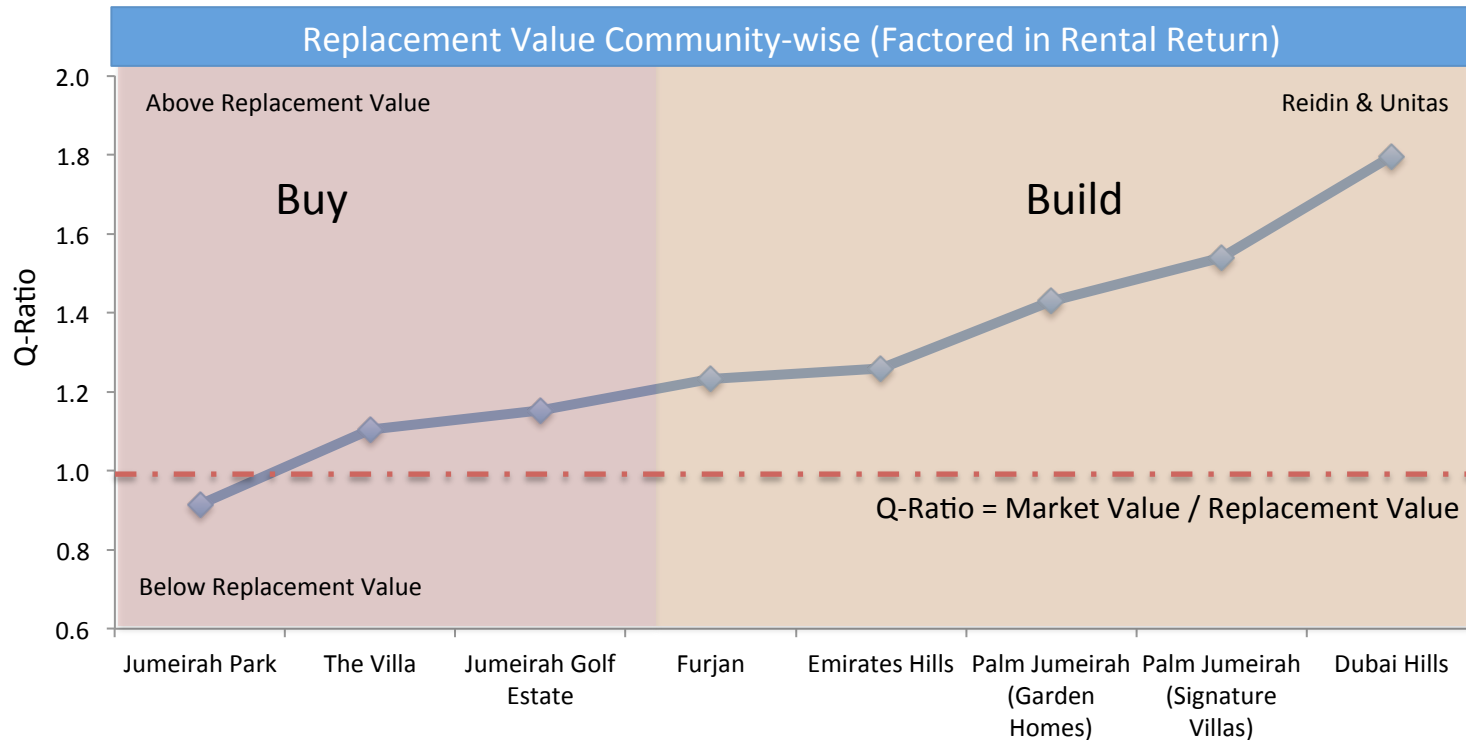
In terms absolute numbers announced upcoming supply, thus by far revealing that horizontal living in the freehold market is expected to increase by 65%. We opine that with more supply in the pipeline, of horizontal space, especially in the "suburbs" will double by the time of Expo 2020 is launched, leaving investors and end-users with an increasing array of choice.

Build or Buy



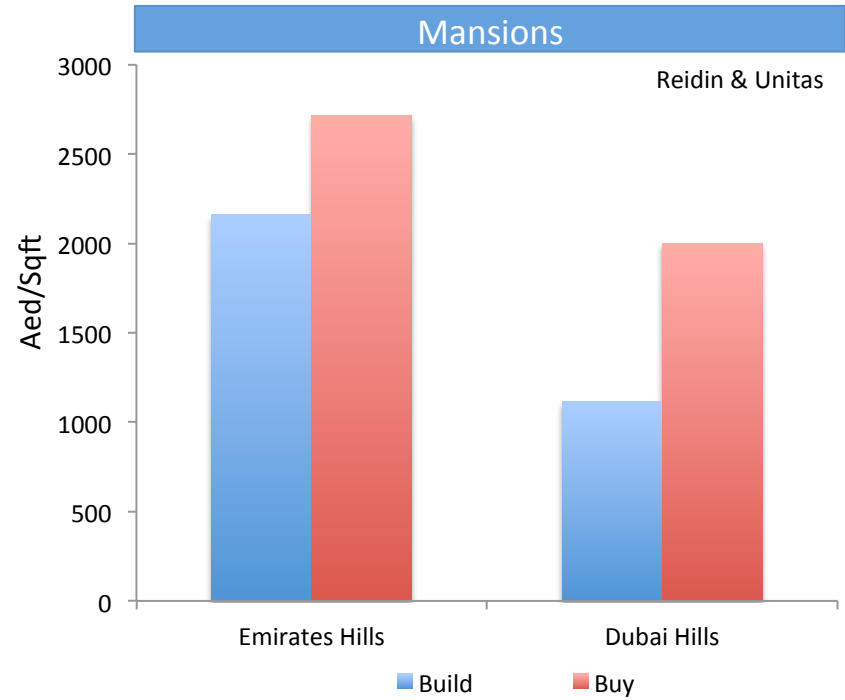
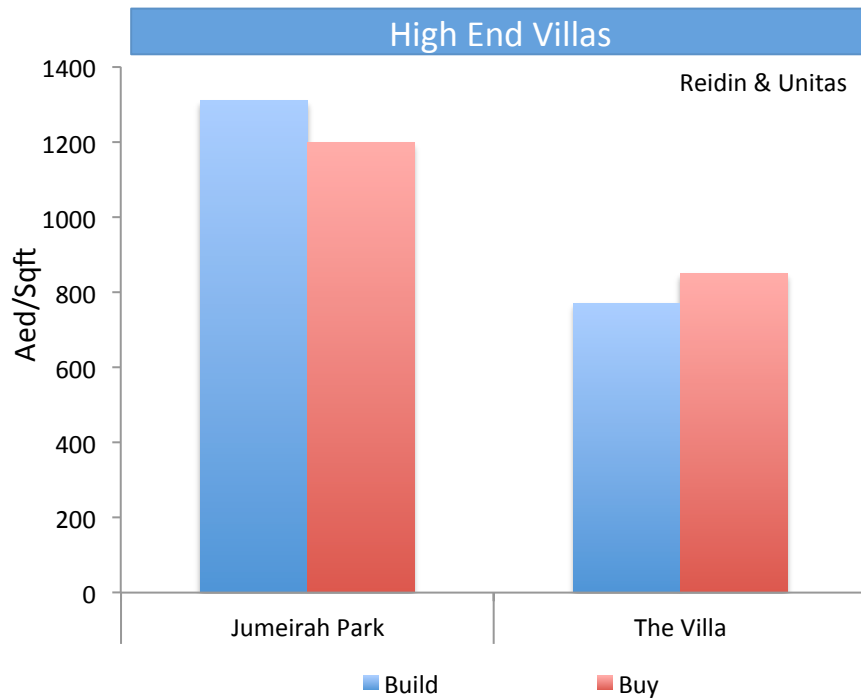
“If opportunity doesn't knock, build a door” - Milton Berle

Luxury Spaces have outpaced replacement values...



Tobin's Q-Ratio, a measure of market valuation that measures how expensive markets are, reveals that as ticket sizes go higher the ratio moves higher as well. This is perhaps the strongest indicator that Dubai's real estate market has become top heavy. Even after factoring in the opportunity cost of yields, there is considerable "froth" at the trophy end of the market, suggesting that prices have to correct at this segment.

Buy Versus Build



An examination of communities at the high-end where build and buy options are available, reveals that there is a negligible difference in the two options at the high end space, once the opportunity costs of rental yields are factored in. This strongly argues for the “purchase” option rather than build.

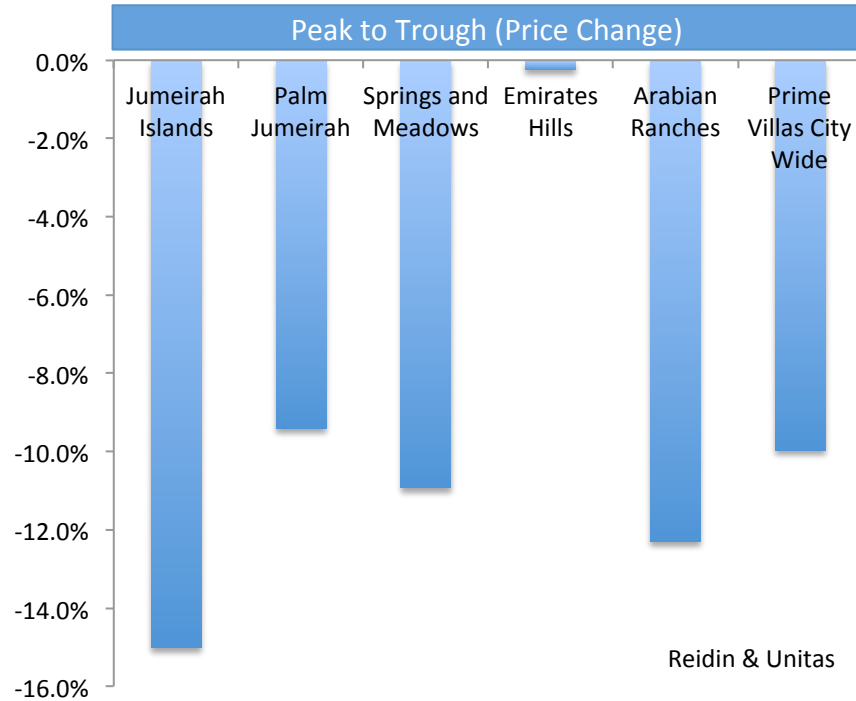
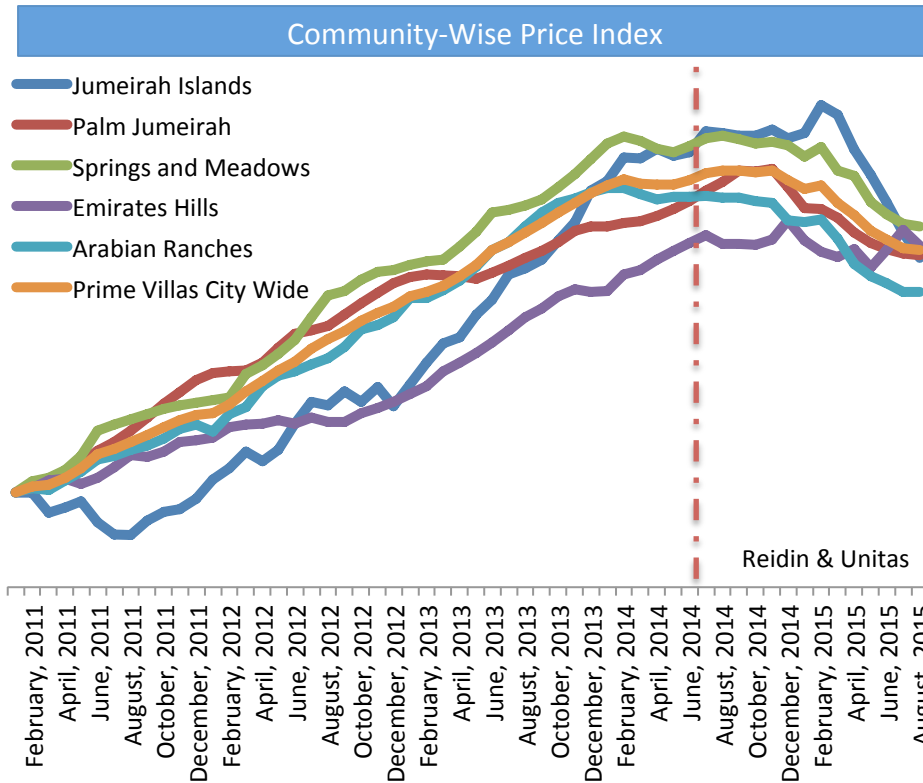
However, when a sample analysis is conducted at Mansion area (using Dubai Hills and Emirates Hills as a comparison) there appears to be a significant difference between the buy and build options from an economic perspective. This suggests that as “build” options are more frequently exercised prices are expected to plateau or even soften as sale values converge towards replacement levels.

A Closer Look into Price Action



“Mathematics as an expression of the human mind reflects the active will, the contemplative reason, and the desire for aesthetic perfection. Its basic elements are logic and intuition, analysis and construction, generality and individuality” - Richard Courant

Villa Prices already starting to fall towards replacement value...



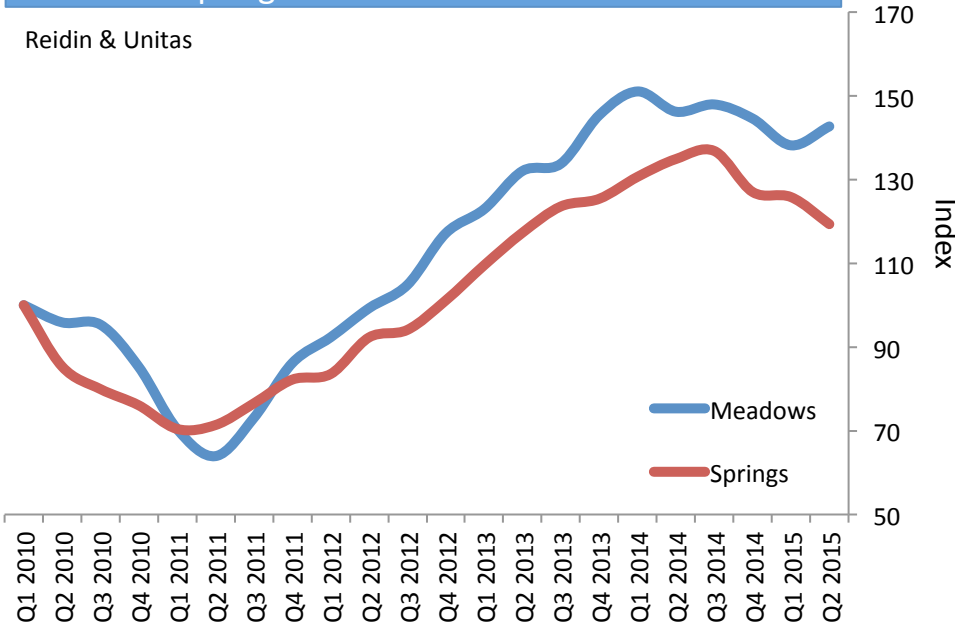
An analysis of the villa segment shows that prices from the peak are down 10%, where as some communities such as JI and the Arabian Ranches have depreciated faster 15% and 12%. Although, the general index is an indicator for price direction, we opine that it does not reveal underlying dynamics where transactions are less common than in the apartment space; both in the listings as well as in the transacted space, prices in certain instances have corrected by as much as 25%.

Emirates Hills has remained stable during this correction phase; we believe that prices here will correct inevitably as downward pressure is exerted towards replacement values.

Villas Systematically Outperform Townhouses

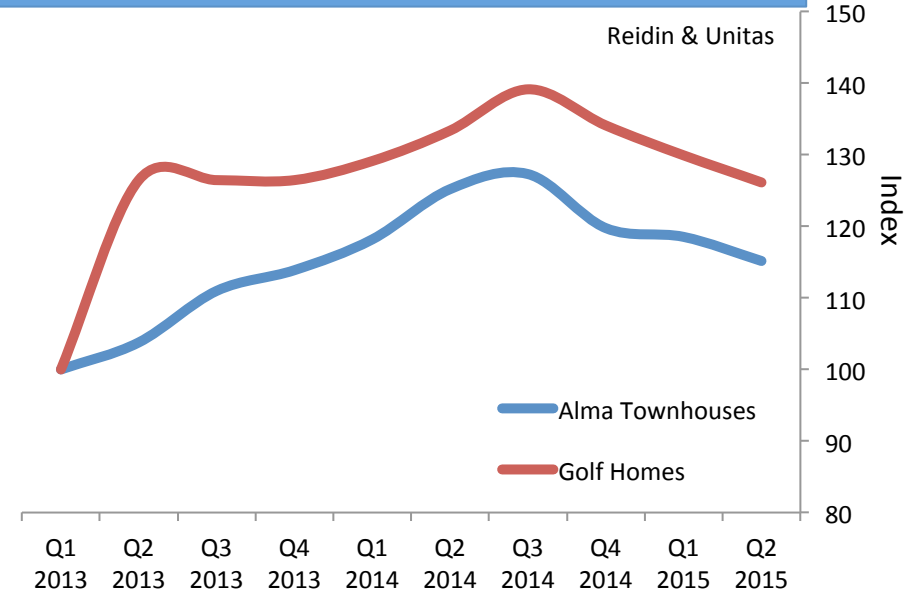
Springs Vs Meadows Price Index

Reidin & Unitas



Alma Townhouses Vs Golf Homes Price Index

Reidin & Unitas



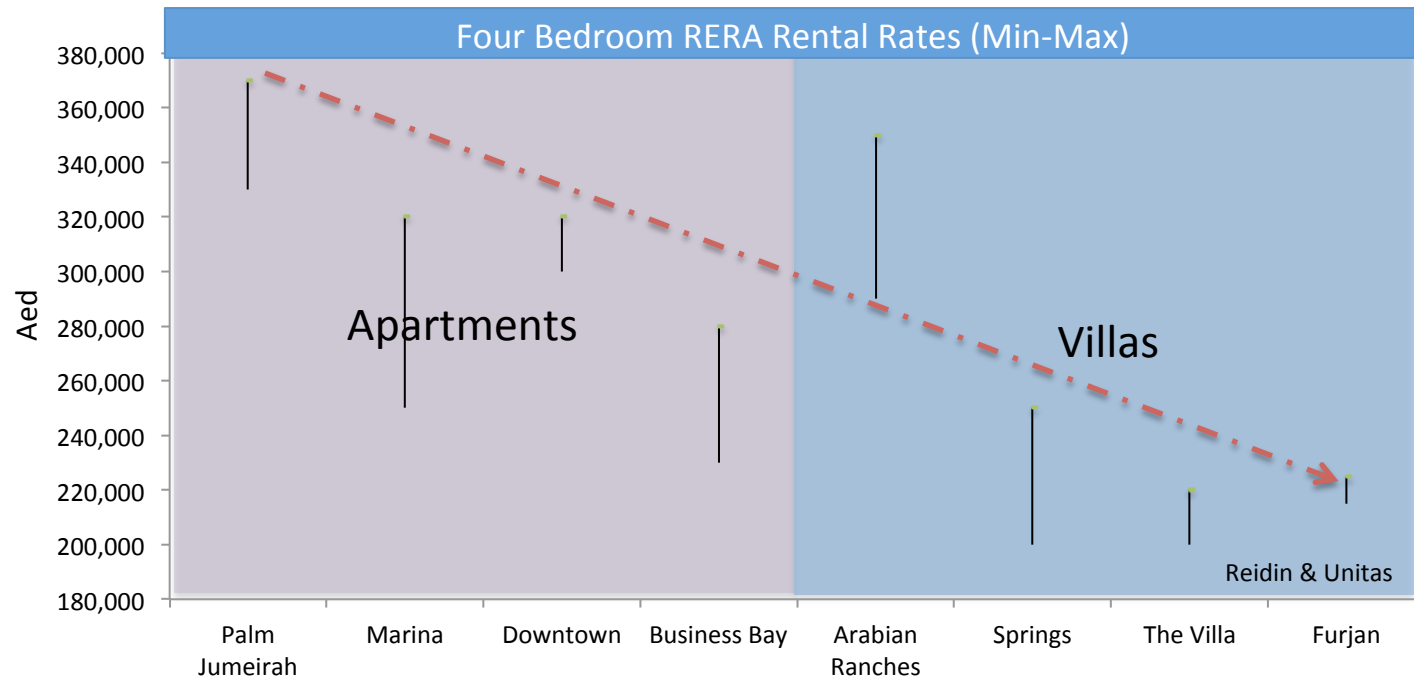
A closer look into price action between the villa and townhouse space, reveals that systematically the former has outperformed the latter. This trend highlights the relative scarcity of supply, as well as the fact that there has been a greater incidence of end user purchases in the former space.

Arbitrage in Rents



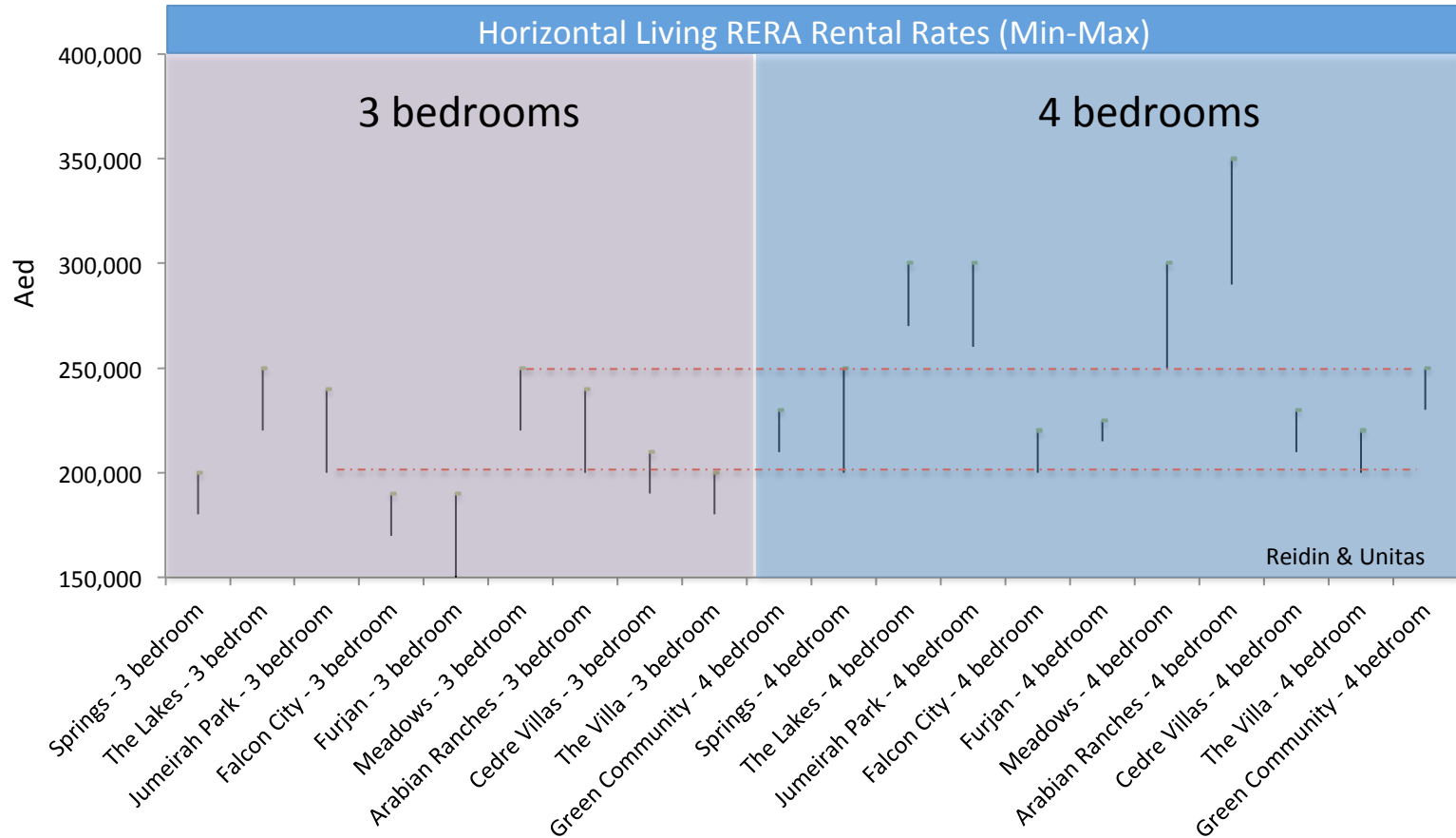
“Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected” – George Sores

Need a Four Bedroom to Rent ... Go Horizontal



A rental analysis across apartments and villas reveals that the latter has cheaper options when looking for a four-bedrooms to rent. In the apartment space typically a four-bedrooms crossover into the penthouse segment increasing rent significantly. This highlights the “suburbanization” effect that is currently underway in the city, as an increasing percentage of families choose to move into areas that are not in the city center to capitalize on rent differentials.

The Crossover Effect in the Horizontal Space



The above chart depicts the crossover options from a three-bedrooms to a four-bedrooms in the villa segment keeping the budget constant. For example, a tenant could move from a three-bedrooms in The Meadows to a four-bedrooms in The Villa project without increasing their budget. Most of the options exist on the Sheikh Muhammad Bin Zayed corridor highlighting the suburbanization effect that is underway.

Conclusions

Tobin's Q-Ratio, a measure of market valuation that measures how expensive markets are, reveals that as ticket sizes go higher the ratio moves higher as well.

In the horizontal space, the Q-Ratio shows an upward sloping curve implying that it is cheaper to build in the mansion space and buy in the luxury villa segment.

Landscape of Horizontal Living

A supply side analysis of upcoming supply, thus by far, reveals that horizontal living in the freehold market is expected to increase by 65%.

A dissection of the horizontal space reveals that existing supply in monitored areas is heavily skewed towards the villa segment.

However, as developers have recently shifted course towards the affordable segment, project launches such as Nshama Townhouses and Warsan Village pave the way for cheaper options within the market.

A Closer Look into Price Action

An analysis of the villa segment shows that prices from the peak are down 10%, where as some communities such as JI and the Arabian Ranches have depreciated faster by 15% and 12%.

This trend is expected to continue, especially in the trophy segment of the market as end users look towards building high-end and luxury villas given the availability of such options.

Build or Buy

Tobin's Q-Ratio (a measure of valuation) reveals an upward sloping curve, which is perhaps the strongest indicator that the market has become "top heavy".

In the high end villa space there appears to be a negligible difference between the build or buy scenarios; however there appears to be a considerable gap in the mansion space.

This indicates that there will be price declines as values converge towards replacement value.

Arbitrage in Rents

A cross segment rental analysis between apartments and villas reveals that the latter has a wider array of affordable options when it comes to the four-bedrooms space.

Such options proliferate along the SMBZ corridor and highlight the "suburbanization" effect that is currently underway in the city.

We opine that this trend will manifest itself both in the rental and the price segment as end users start to exercise options in a market that offers them an increasing array of choice.



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HH General Sheikh Mohammed Bin Rashid Al Maktoum
The Ruler of Dubai and Prime Minister of UAE



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