

STRICTLY CONFIDENTIAL



Dubai: Musings

This document is provided by Unitas Consultancy solely for the use by its clients. No part of it may be circulated, quoted, or reproduced for distribution outside the organization without prior written approval.

Executive Summary

- **Dubai Diversification Away from Real Estate:** A recent statement that has permeated the Dubai zeitgeist is the diversification of the economy into different sectors and away from real estate. A granular break-down of the data attests to this, as the percentage of people who were working in the field of real estate (*real estate services and construction*) have halved (*50% to 25% from 2008 to 2015*). A similar dynamic has transpired in the GDP figures. Real estate services and construction in 2008 contributed 31% of the emirates GDP, whereas in 2015 it accounts for 22%. This shift into other sectors has allowed the economy to be more resilient to exogenous and endogenous shocks.
- **Private Sector to dominate the skyline of Dubai:** A segmentation analysis of the Dubai freehold supply in monitored areas reveals that government sector developers account for 56% of units in the market. However, over the last decade the contribution of private sector developers has been increasing. As Dubai continues to launch new units, we witness that the ratio is skewed towards private sector developers (70:30). This shift attests to the growing role of the private sector in the build-out of the Dubai skyline.
- **The 'Bottoming' out of the market:** A closer look into the transactional activity and price action over the last 6 months signals that base effect could already be established. A 6-month analysis of price changes reveals that the rate of decline has dramatically decreased with certain months also showing a price uptick in the last few months. Transactional activity, although subdued when compared to last year, shows signs of a recovery as city-wide residential sales climbs higher since the beginning of the year.
- **Change in Accounting Standards:** A recent development that has incurred in the Dubai equity market is the change of accounting policies on how developers book their revenue. Earlier, they were using the IAS 18 standard which only allowed them to recognize the revenue from a unit sale when the buyer was entitled to take possession of the property. However, with the early adoption of IFRS 15, they recognize revenue at the time at which the entity has an enforceable right to payment for performance completed to date. This switch has allowed developers to book the revenue on off-plan sales earlier on in the life-cycle. A closer look into Emaar, Damac, and Aldar, shows that there is a 10%-50% variance in the profit figure by switching accounting policies. It remains to be seen what the likely impact will be on equity prices as a result of these changes but it is probable that this will be played out over the next few months. .



Contents

- 1 Dubai's Diversification away from Real Estate
- 1 Private Sectors to Dominate the Skyline of Dubai
- 2 The 'Bottoming Out'
- 1 The Impact and Incidence of IFRS 15

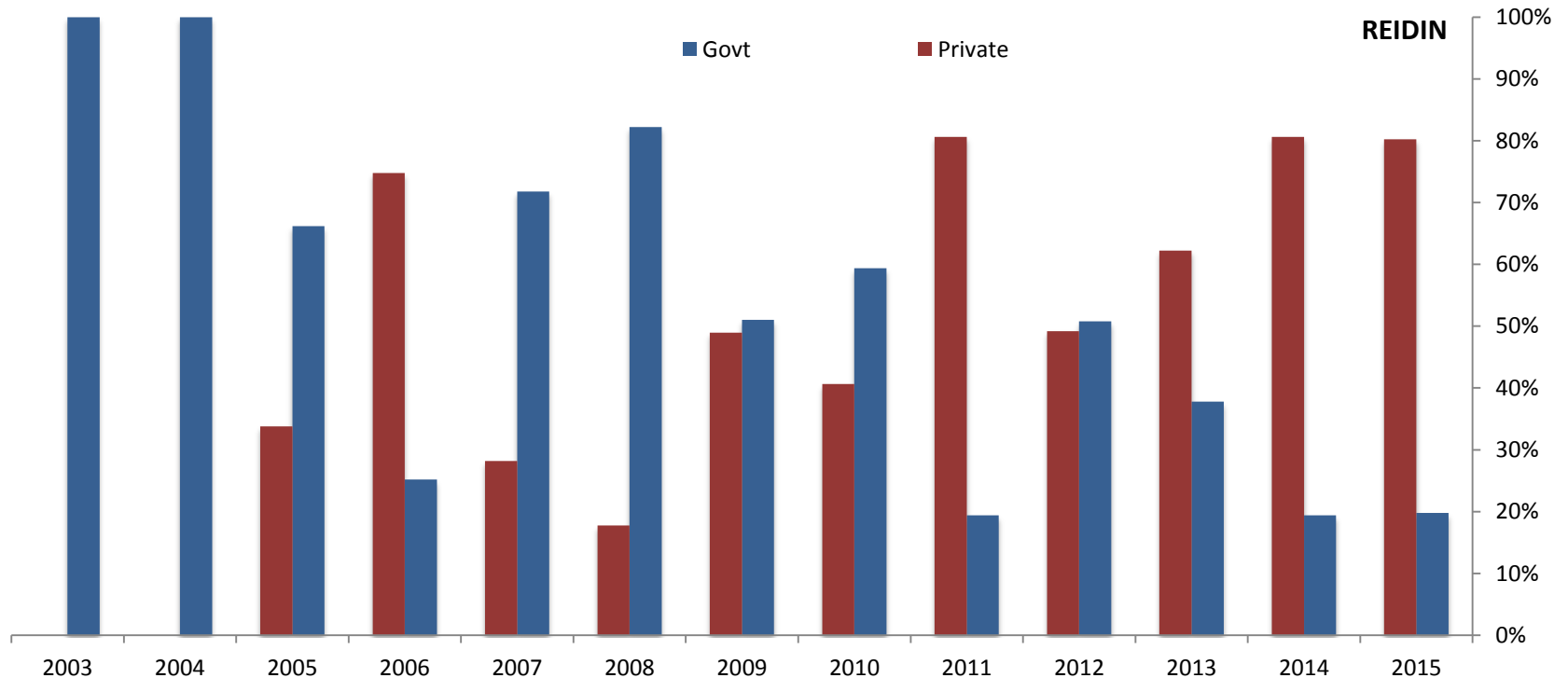
Private Sector Developers Will dominate the Landscape



“Progress is impossible without change, and those who cannot change their minds cannot change anything” -
George Bernard Shaw

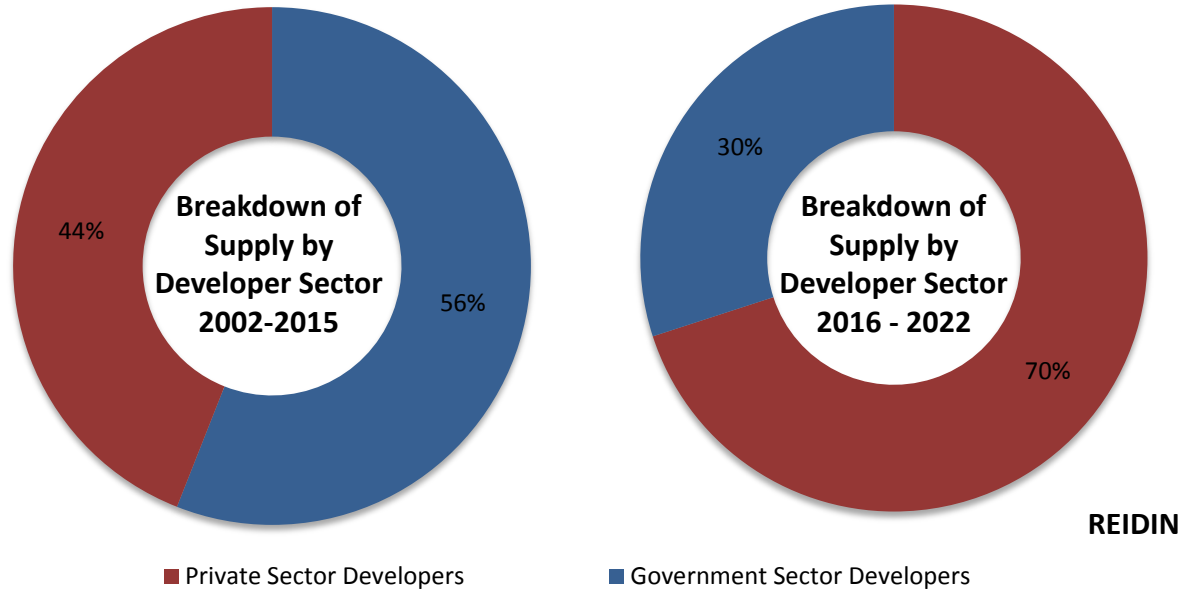
Private Sector Plays a larger role in Dubai Construction

Freehold Units in monitored areas by Developer Sector (2003-2015)



The above graph shows the evolution of the completion of units by type of developer. Initially, the government sponsored developers played the major role in the delivery of residential units across the city in the freehold space. However, as the pace of development increased coinciding with asset price hikes, private sector developers began to enter the fray. Over time we have witnessed private sector developers contributing a higher percentage of supply to the housing stock.

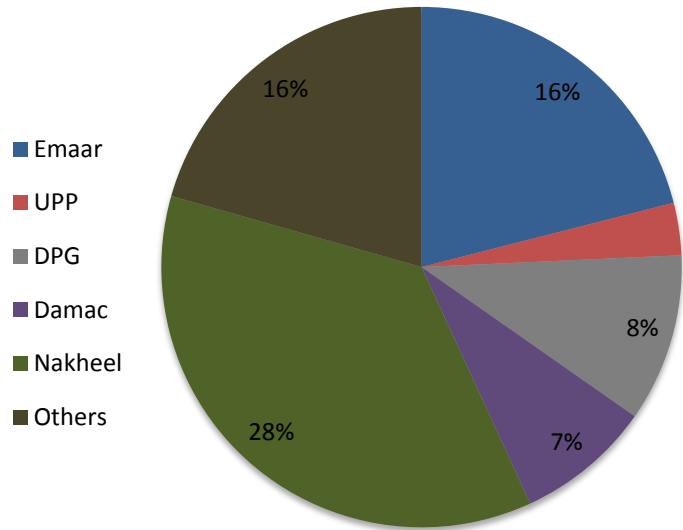
Future Supply Will be Provided by Private Sector Developers



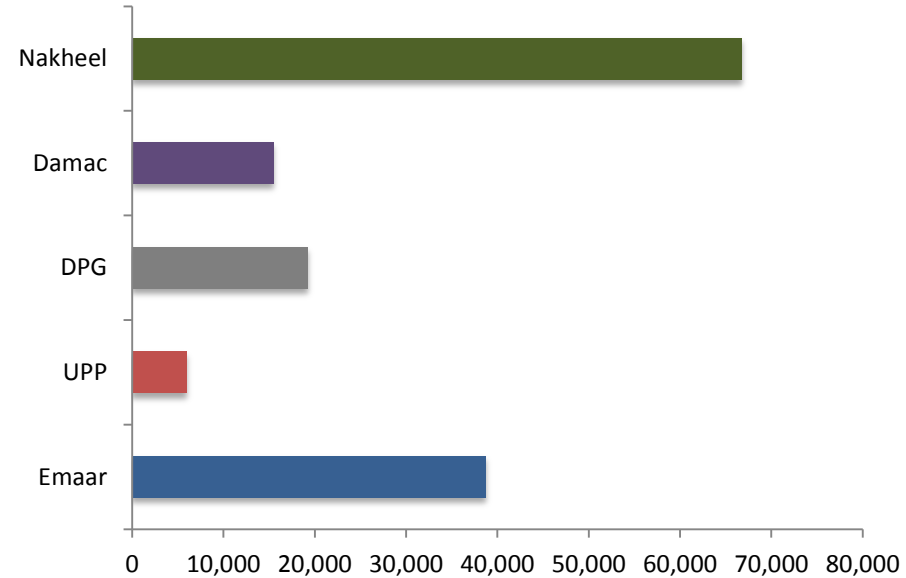
Historically government sector developers have contributed 56% of the freehold housing stock in monitored areas. However, as Dubai continues to push forward with new launches, private sector developers are projected to dominate the supply pipeline, rising to 70% by 2022 (based on currently announced projects).

Nakheel and Emaar Dominate the Major Developers (Units completed)

Units Delivered of Freehold Supply (2000-2015)*



Units Delivered*



An analysis of delivered units in the freehold space reveals that the Emaar and Nakheel account for approximately 44% of delivered supply. However, going forward, Damac will contribute a much larger of the supply pipeline, as they have over 40,000 units in their development portfolio. This is inline with the shift towards private sector developers dominating the supply pipeline.

*Data has been compiled from various market sources

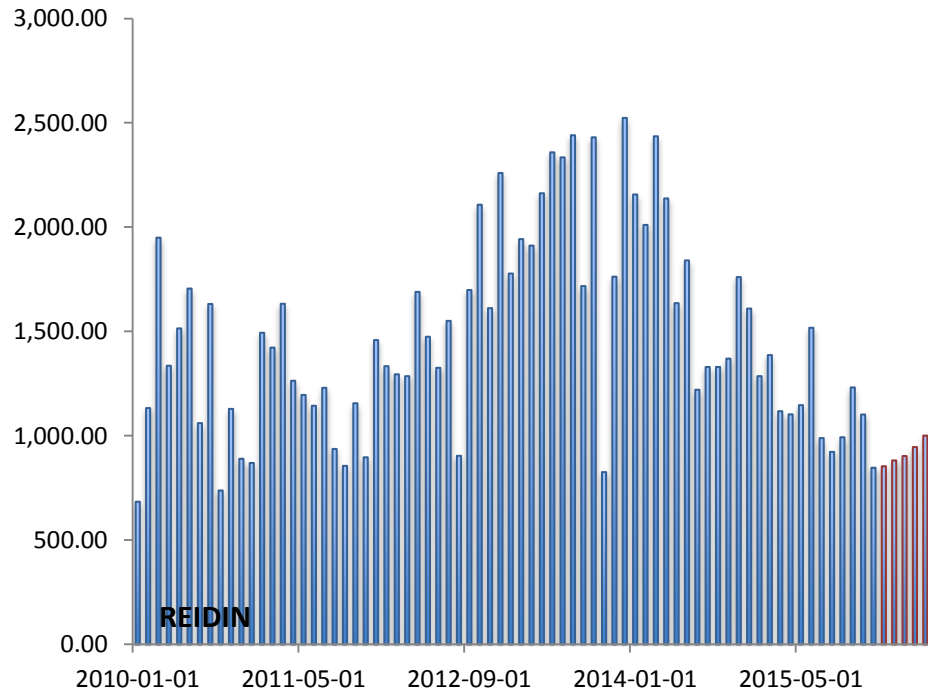
Has the Uptick Begun?



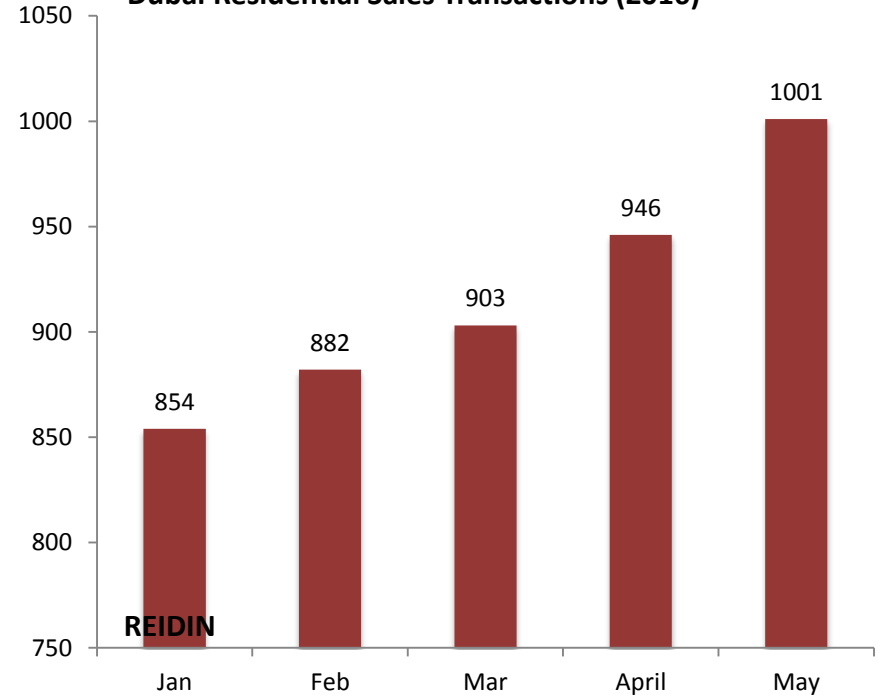
“I think we're in the beginning of a bull market. When a bull market begins, nine months later the economy turns around” -
Sumner Redstone

Dubai Transactions Activity on the Rise

Residential Sales Transactions (2010 to Date)

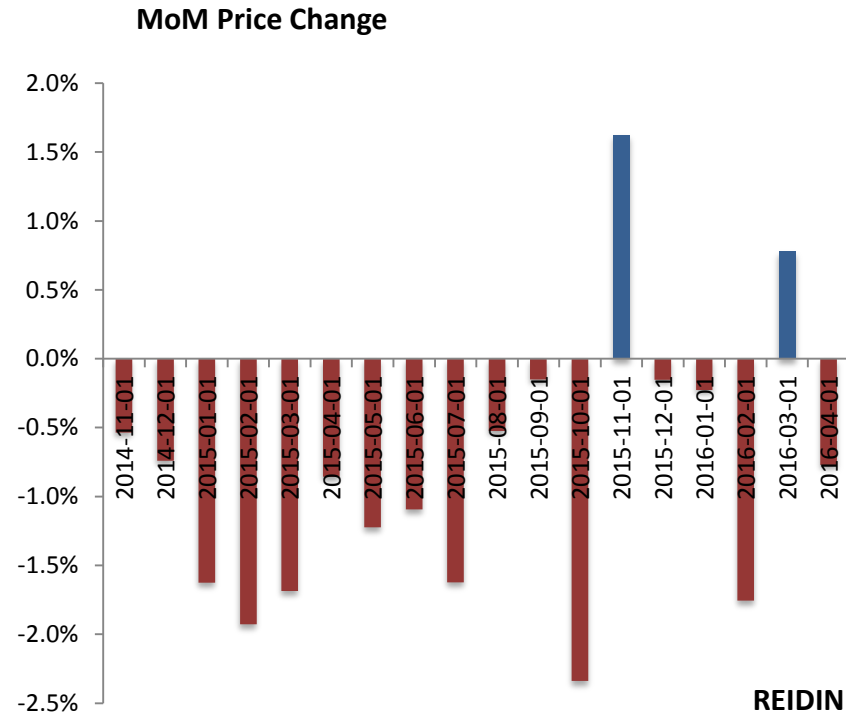
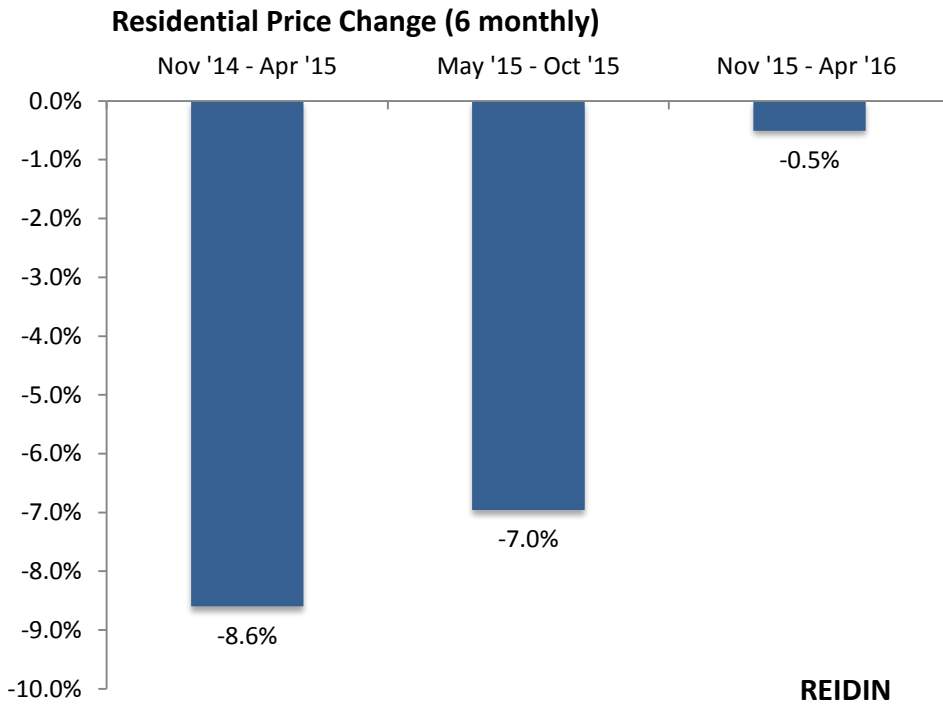


Dubai Residential Sales Transactions (2016)



A granular look into the city-wide residential sales since the beginning of the year reveals a gradual uptick of transactional activity. Although, this activity is below the levels of 2015, it is likely signaling a revival within the real estate market as end-user and investors try to hunt for bargains.

Rate of Price Drop Declines



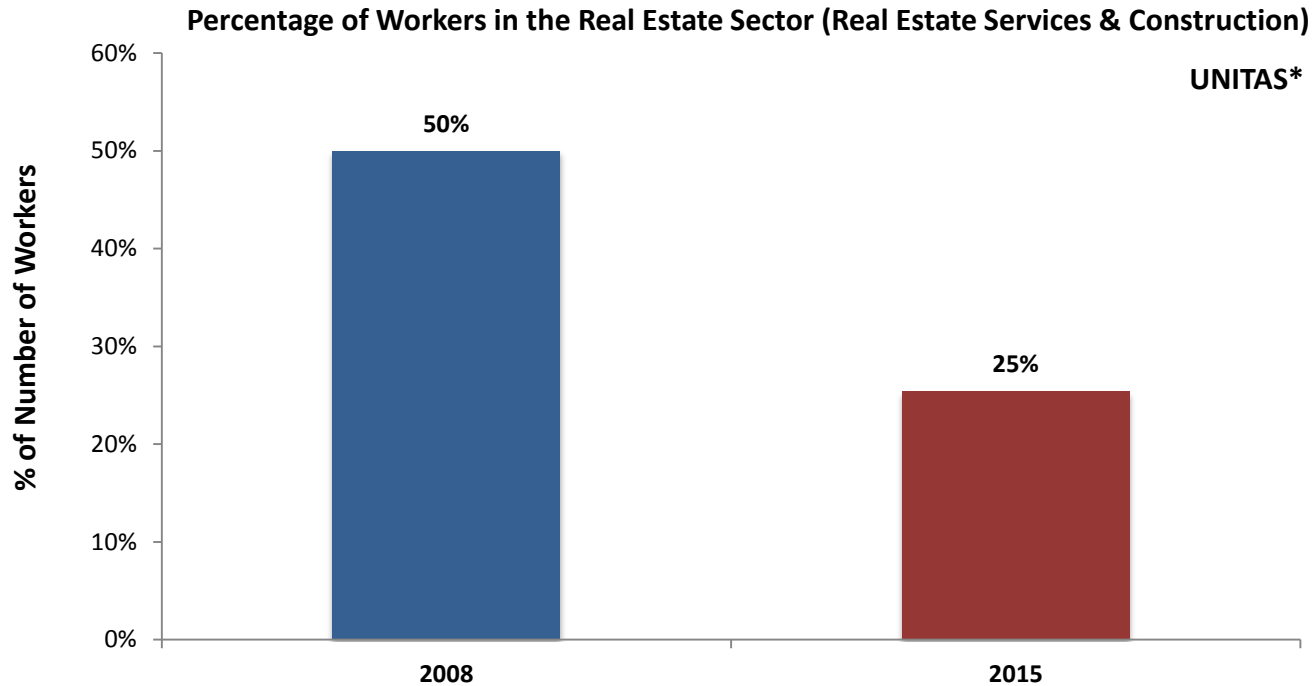
An analysis of prices from the peak in mid 2014 reveals that the rate of decline has begun to narrow, coinciding with the rise in transactional activity. In the last 6 months, there have been 2 instances where positive price changes have been registered, suggesting that an inflection point may be at hand.

Diversification Away from Real Estate



“Diversification is protection against ignorance, it makes little sense for those who know what they’re doing”
– Warren Buffett

Diversification away from real-estate: A Head Count Analysis

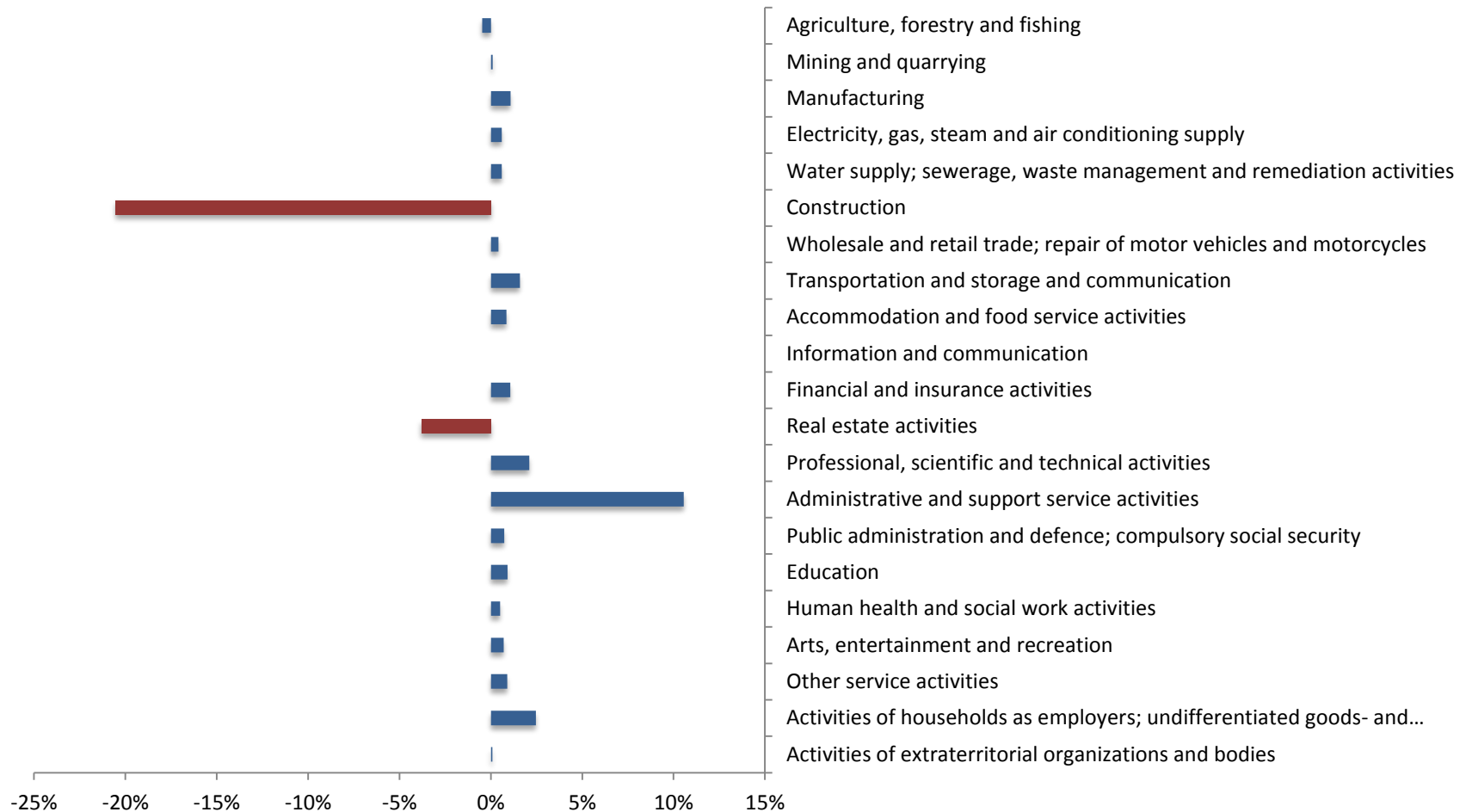


The diversification process that Dubai has implemented since the last real estate crash has been effective. A closer look into the job numbers reveals the concentration of people in the real estate and construction sector have halved since 2008. This has been offset by an increase in demand for jobs in other sectors such as manufacturing, education, and administration.

*Data has been compiled from Dubai Statistics Centre

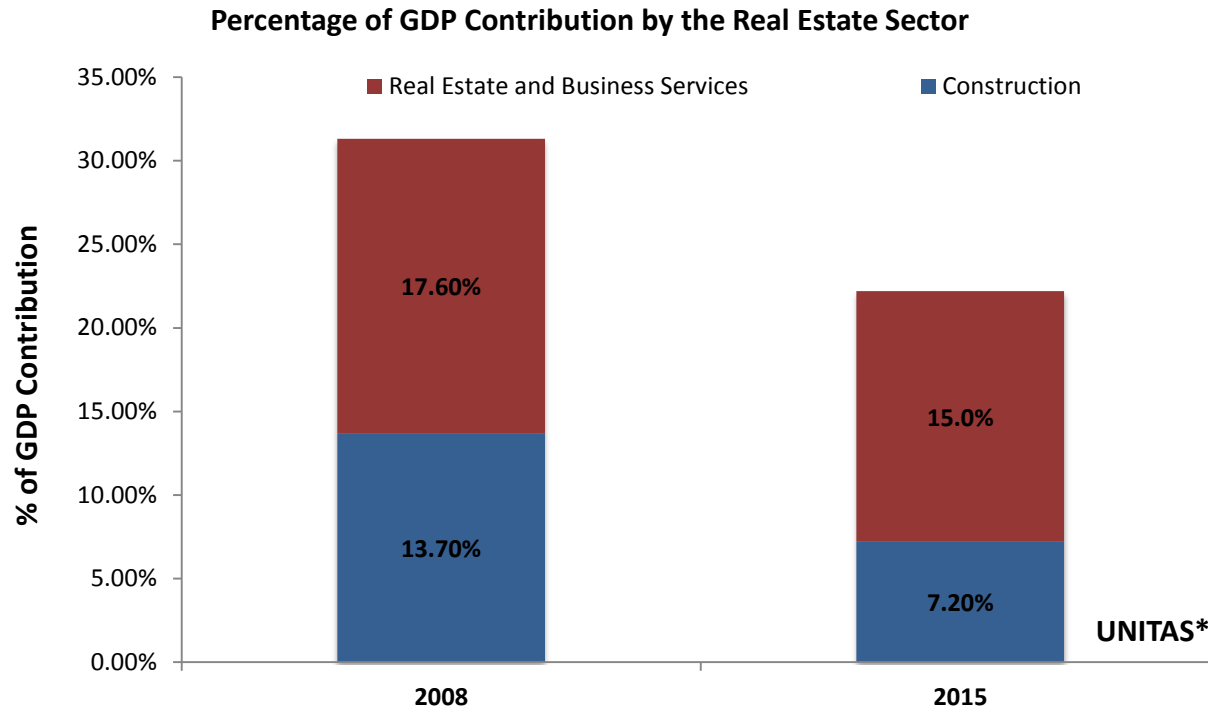
Diversification away from real-estate: A Head Count Analysis

% Change of Employee by Economic Activity (2008 VS 2015)



The above graph highlights Dubai's shift away from the real estate and construction sector in terms of employee head count, and towards other a cornucopia of other sectors indicating diversification efforts continue to gather pace at a steady pace.

Diversification away from real-estate: A GDP Data Analysis



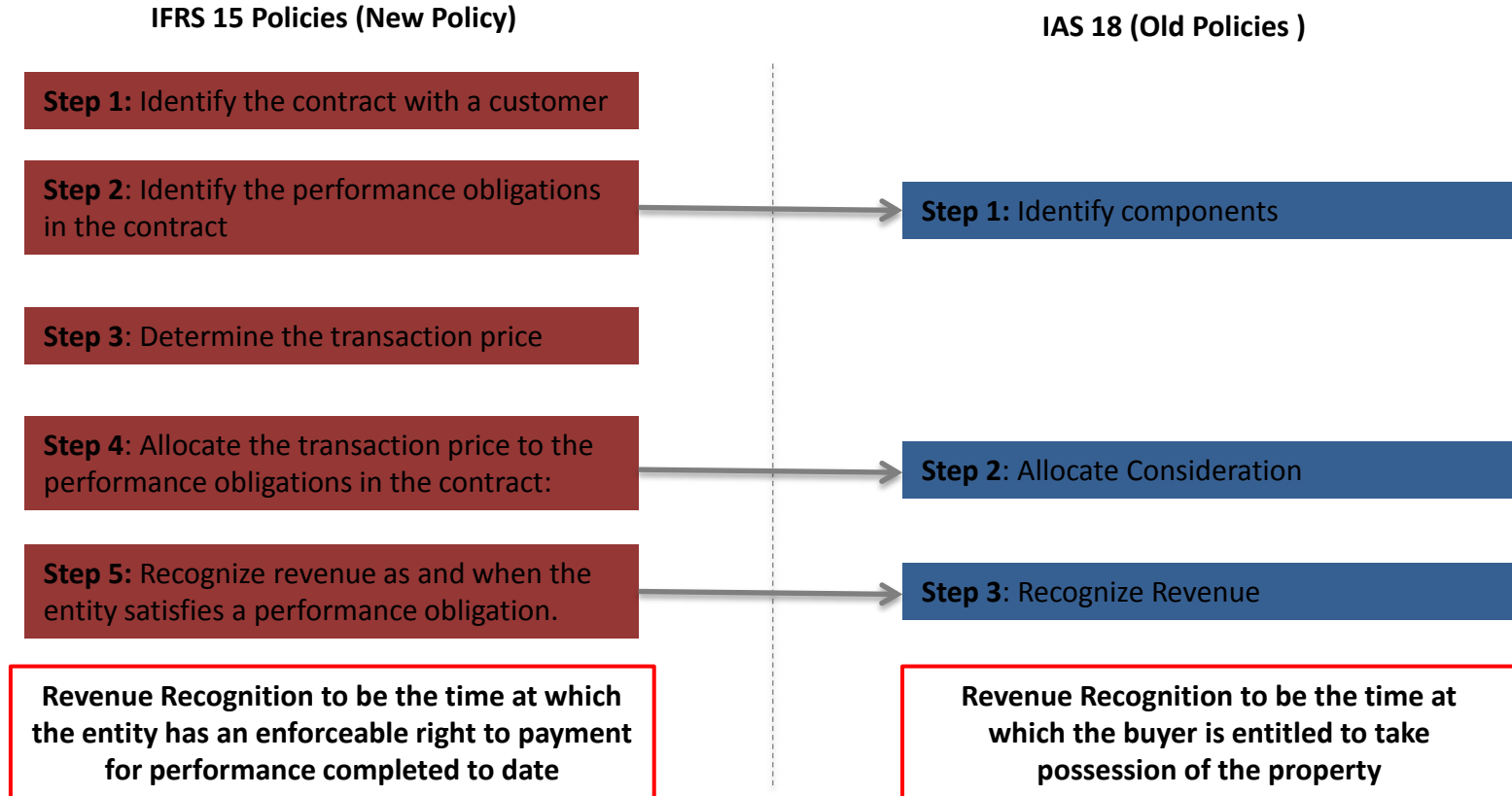
A similar dynamic has transpired in the GDP numbers as the dependency of the economy on real estate activities has lessened. This shift attests to the government's diversification strategy bearing fruit as other sectors have started to dominate the economic growth engine.

The Impact and Incidence of IFRS 15



“In the long run managements stressing accounting appearance over economic substance usually achieve little of either.”
— Warren Buffett

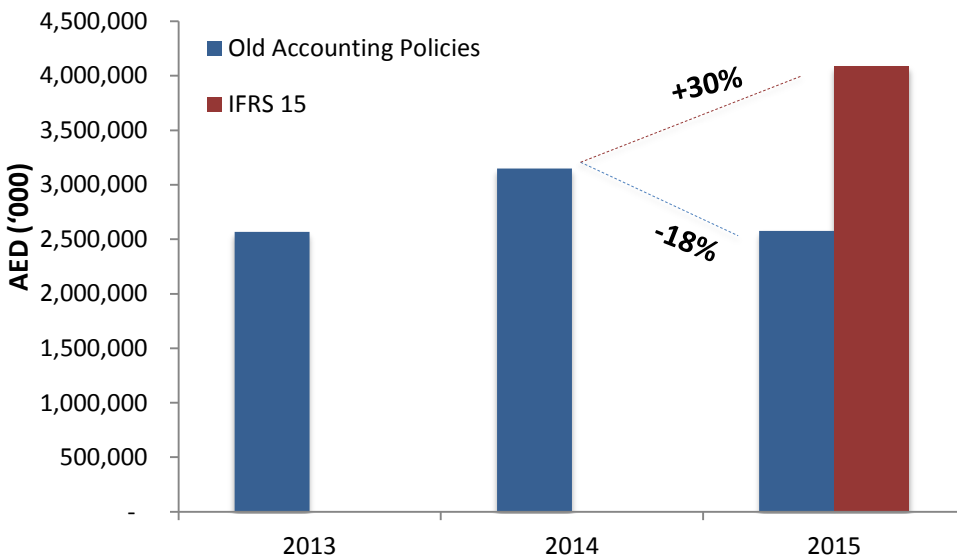
The Impact and Incidence of IFRS 15 – Change in Accounting Standards



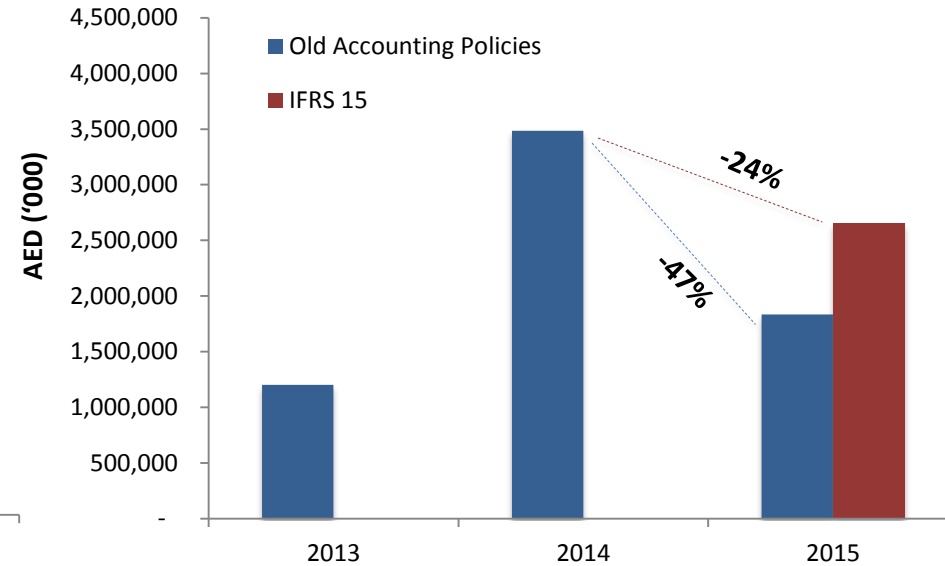
Historically public listed companies have been using the IAS 18 policy to book revenue for sales of units. This policy allows companies to recognize the revenue when the buyer is entitled to take possession of the property. However with the shift towards IFRS 15 companies are allowed to book revenue of the unit at the point the entity has an enforceable right to payment. Although IFRS 15 will be mandatory after 2018, many companies have started early adoption at the beginning of 2015.

Dubai: The Impact and Incidence of IFRS 15 on Profits of Real Estate Companies

Emaar Annual Profits (2013-2015)*



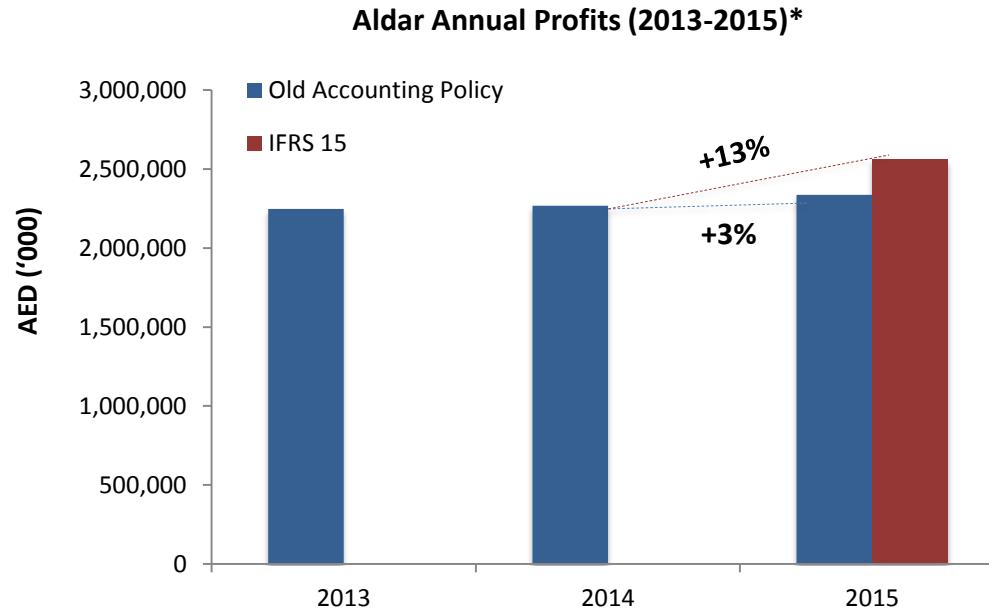
Damac Annual Profits (2013-2015)*



A closer look into Emaar and Damac 2015 annual report highlights the difference between the policies. By booking revenue according to the IFRS 15 standards creates a higher profit number compared to the previous policy due to the timing of the revenue recognition. Investors should be cognizant of the change in accounting standard to better assess the health of the company.

*Data has been compiled from Annual Financial Reports

Abu Dhabi: The Impact and Incidence of IFRS 15 on Profits of Real Estate Companies



Abu Dhabi companies have adopted the same switch to IFRS 15. The above graph shows the impact of switching to IFRS 15 on Aldar. The impact appears to be lower in Al Dar's case, which is reflective of the off plan pipeline that is considerably less than that of Dubai companies.

*Data has been compiled from Annual Financial Reports

Conclusions

A closer look into the job numbers reveals the concentration of people in the real estate and construction sector have halved since 2008

A granular look into the city-wide residential sales since the beginning of the year reveals a gradual uptick of transactional activity.

Private Sectors will dominate the landscape

A look into the roll out of supply since the advent of freehold, we can witness that government sponsored developers dominated the landscape, contributing to the majority of units.

However, a look into the future supply, we can witness that private sector developers will play a larger role in delivering units.

A look into the units completed of the major developers in Dubai reveals that Emaar and Nakheel have dominated the units delivered.

Diversification Away from Real Estate

A closer look into the jobs numbers by economic activity reveals that people working for the construction and real estate sector have halved from 2008 to 2015.

A similar shift has transpired in the GDP numbers as well. Construction and Real Estate services contribute a lower % of GDP today compared to 8 years ago

This shift attests to the government's diversification strategy bearing fruit as other sectors have started to dominate the economic growth engine

The 'Bottoming Out'

A closer look into price and transactional activity signals that a bottoming out may be underway.

Price declines over the last 18 months have begun to taper, allowing for price stability. Alongside this transactional activity has begun to inch higher in the first 5 month of the year.

Although, transactional activity is below 2015 levels, if the momentum continues to market could be entering a bull market.

Impact and incidence of IFRS 15

A recent development that investors in the equity market should be cognizant of is the switch of accounting policies that companies have adopted.

By switching to the IFRS 15 standards developers can recognize revenue at the point where they have an enforceable right to payment. Before companies would book revenue at the point of the unit hand over.

This shift has changed the timings of the revenue recognition, consequently influencing the PNL numbers. A closer look into Damac and Emaar's annual reports shows a 50% circa difference in the profits by switching policies.



GLOBAL CAPITAL PARTNERS

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.

GCP is the author for these research reports

Indigo Icon, 1708
Jumeirah Lake Towers,
PO Box 500231 Dubai,
United Arab Emirates
Tel. +971 4 447 72 20
Fax. +9714 447 72 21
www.globalcappartners.com
info@gcp-properties.com



REIDIN.com is the leading real estate information company focusing on emerging markets.

REIDIN.com offers intelligent and user-friendly online information solutions helping professionals access relevant data and information in a timely and cost effective basis.

Reidin is the data provider for these research reports

Concord Tower, No: 2304,
Dubai Media City,
PO Box 333929 Dubai,
United Arab Emirates
Tel. +971 4 277 68 35
Fax. +971 4 360 47 88
www.reidin.com
info@reidin.com

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