Unitas Consultancy (A GLOBAL CAPITAL PARTNERS GROUP COMPANY)

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Dubai: For Whom the Oil Tolls

REIDIN Emerging Markets Real Estate Information

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Executive Summary

- An analysis across multiple countries reveals that there is a correlation between oil prices and the performance of the real estate sector. For example in Canada, oil dependent cities such as Calgary and Edmonton have underperformed non-oil dependent cities such as Toronto and Vancouver. A similar result was witnessed in Norway between Oslo and Stavanger, where the latter, an oil dependent city, under performed the former, a non-oil dependent city. However, in the USA this trend has not played out to same effect as the results were mixed.

- In Dubai there is a low positive correlation between price action and transactional activity against the movement of oil prices. This partly has to do with Dubai's low dependency of oil on its budget, as it only makes up for 6% of its expected revenue in 2016. Moreover, the current slow-down in the market can be attributed towards a cornucopia of factors, including the strengthening of the US dollar, a flurry of new housing projects, a generous supply pipeline, regional and geo-political issues.

- A dissection of the Dubai investor base further sheds some light into the buying power for real estate assets. 46% of its real-estate investments are from nationalities that are associated with countries that derive a low portion of its revenue from oil, whereas 38% are from oil-dependent countries. This telling statistic is an indictor of the diversified source of investment inflows, and is likely to continue, leading to a cushioning of the adverse impact of oil prices.

- A break-down of Dubai and Abu Dhabi's employment structure reveals that, the composition of employment in Abu Dhabi has skewed towards an increasing weightage in construction inline with its ambitious development of the city for its 2030 master plan. Whereas in Dubai, the weightage of employment in construction has actually decreased, indicating that the city has moved farther in diversification of its economic base. This is a further indicator of the reduced impact that oil prices will likely have on employment and therefore real estate demand.

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“Oil wealth has been a curse on us, made us weak and docile” - Abu Bakar Bashir

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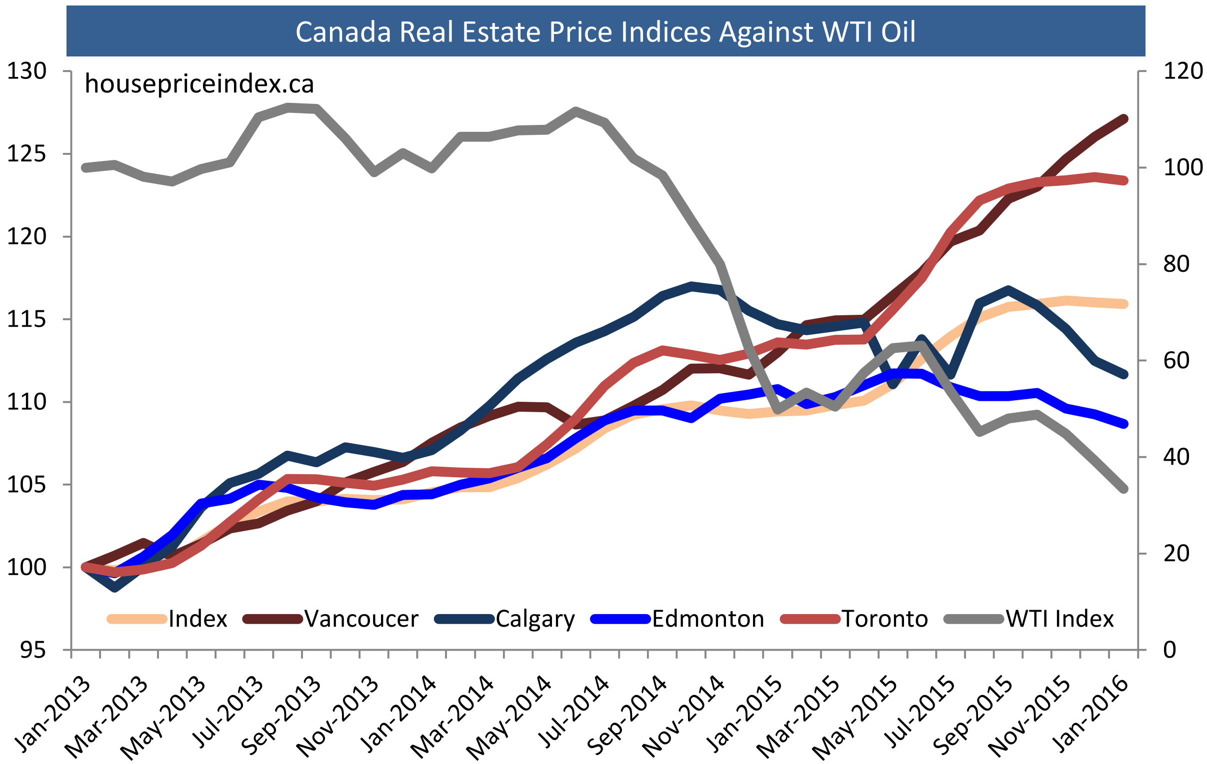


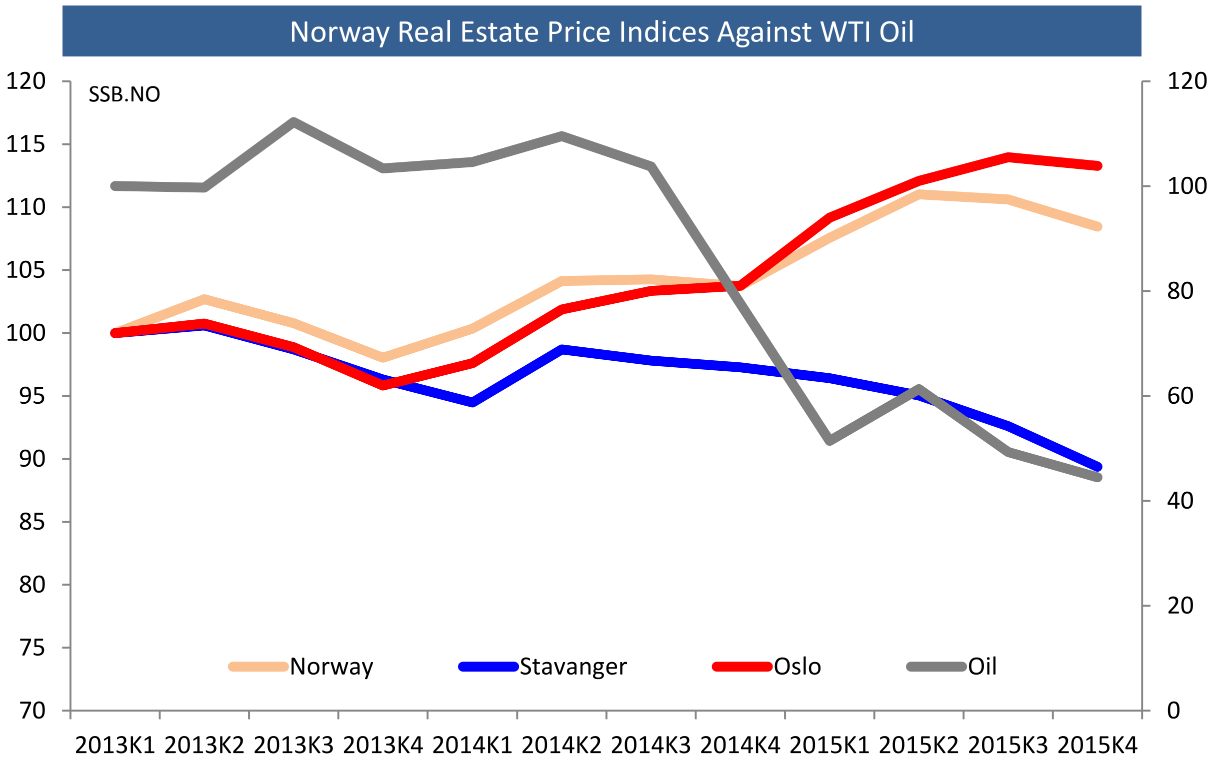
City	Correlation
Edmonton	0.34
Calgary	0.14
Vancouver	-0.07
Toronto	0.04

Oil Dependent

Non-Oil Dependent

The above chart illustrates the price performance of real estate assets of oil-dependent and non oil-dependent cities in Canada in relation to the recent oil crash. Cities that have a higher dependency on oil (such as Calgary and Edmonton) have underperformed the market, compared to cities such as Vancouver and Toronto. Moreover, the impact of oil in the aforementioned cities is clear given the correlations associated with them, indicating a clear divergence between the city wide index prices and those which are dependent on oil.

A Global Look into Oil and Real Estate Markets: Norway



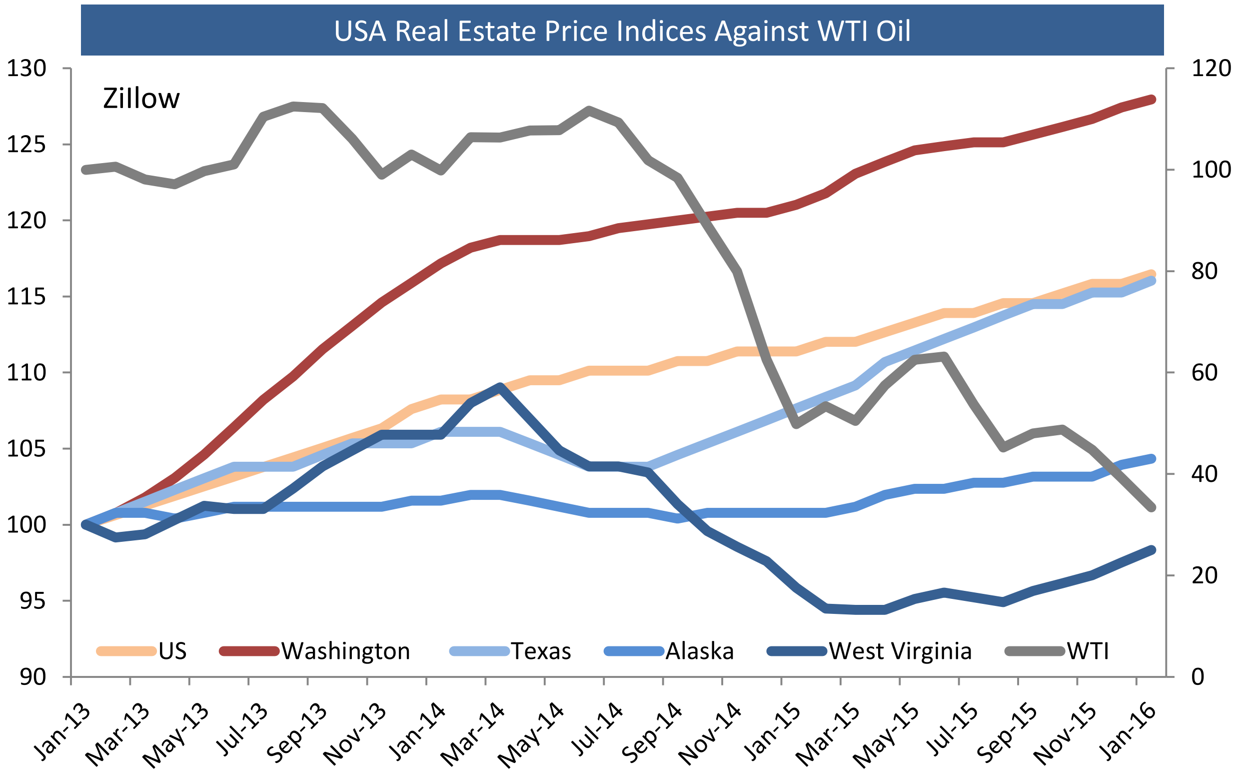
City	Correlation
Stavanger	0.16
Oslo	-0.17

Oil Dependent

Non-Oil Dependent

A similar analysis was conducted in Norway, where oil dependent cities underperformed (Stavanger) compared to non-oil dependent cities. Stavanger had a positively low correlation, where as Oslo had an inverse reaction to oil. Similar to the experience in Canada, Stavanger real estate prices significantly underperformed the country wide index, as oil prices started to decline.

A Global Look into Oil and Real Estate Markets: USA



City	Correlation
Texas	-0.14
Alaska	0.07
West Virginia	0.23
Washington	0.36

- Oil Dependent
- Non-Oil Dependent

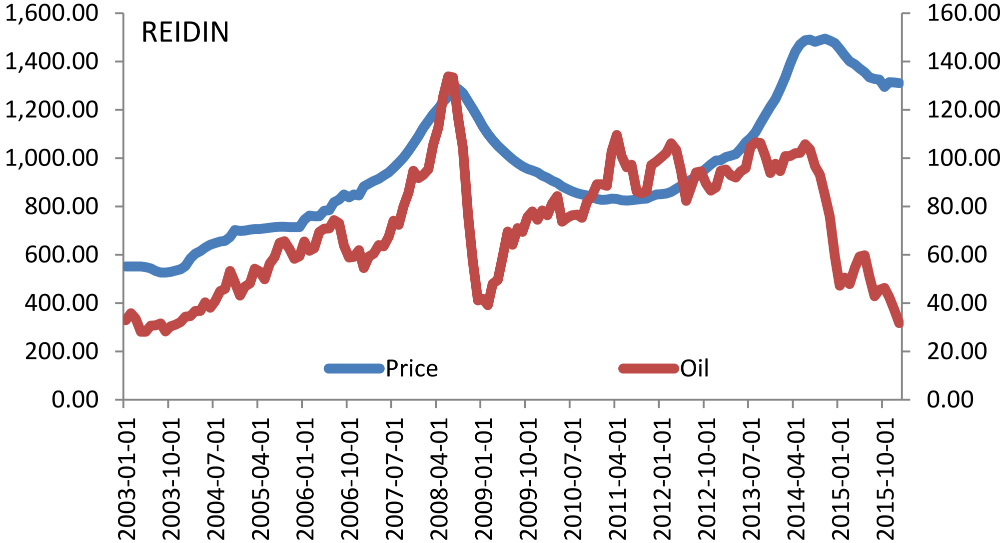
In the United States the results were mixed, showing that the trend has not played out. For example Washington had a higher correlation to oil prices compared to any of the other oil-dependent states. Even here, however, West Virginia and Alaska have exhibited considerable underperformance relative to the rest of the country, and evidence is starting to appear that the real estate market in Texas has started to exhibit signs of weakness, underscoring the strong impact that oil has on real estate activity.

Oil and Investors

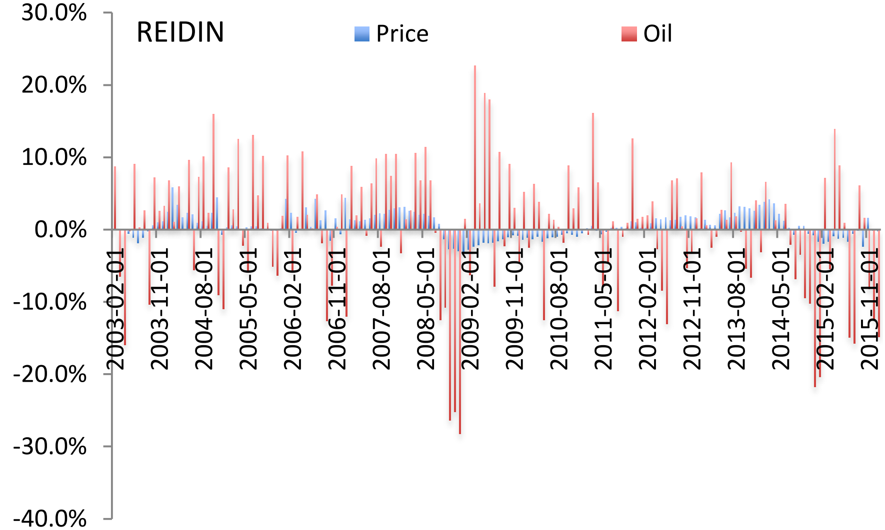
"In 50 years, when we might have the last barrel of oil, the question is: when it is shipped abroad, will we be sad?" he asked. "If we are investing today in the right sectors, I can tell you we will celebrate at that moment." - Sheikh Mohammed, Crown Prince of Abu Dhabi

Dubai Prices have low Correlation to Oil in the Run (+0.16)

Prices Versus Oil

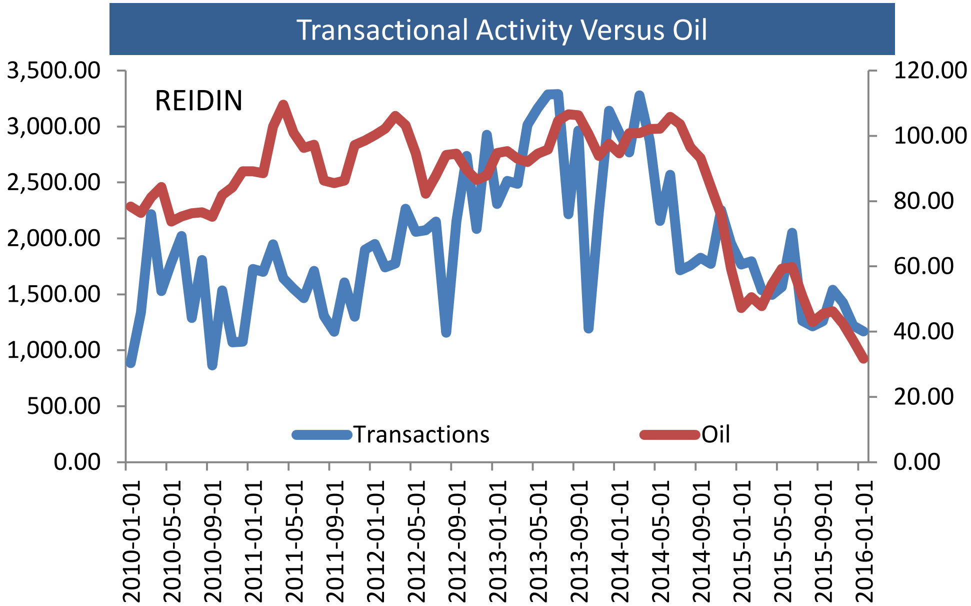


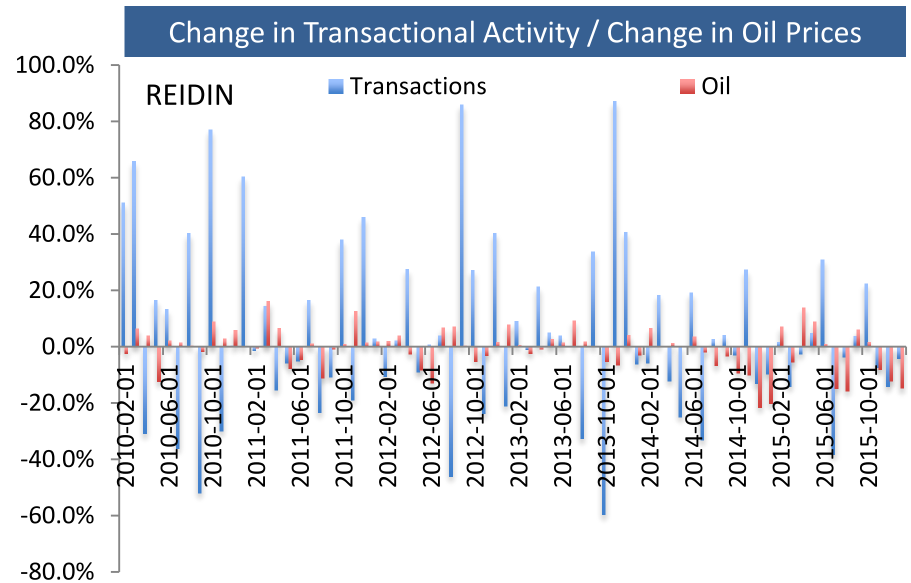
Change in Prices / Change in Oil Prices



A closer look into Dubai reveals that oil prices have a +0.16 correlation to real estate asset prices. The current slow-down in the market can be attributed towards a cornucopia of factors compared to a single variable. Other factors include the strengthening of the US dollar, flurry of new housing projects, investor fatigue, regional and geo-political issues.

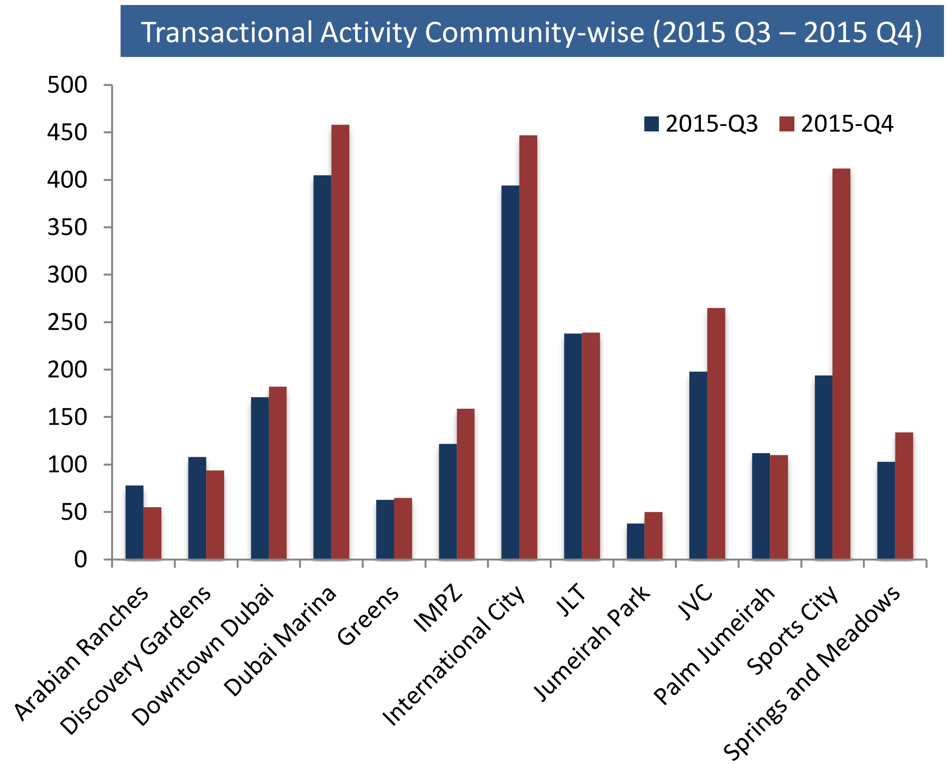
Similar trend witnessed in Transactional Activity (+0.13)

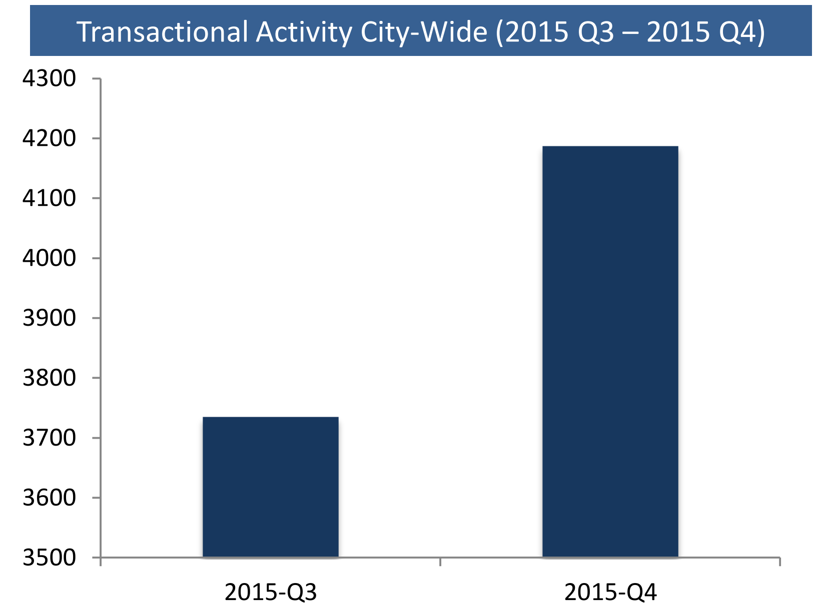




Similar to price action, transactional activity follows a similar correlation. Since Dubai housing market is still skewed towards an investor base from non-oil dependent counties (highlighted in the next section) it is quasi-resilient to the oil shock.

Uptick in Transactional Activity





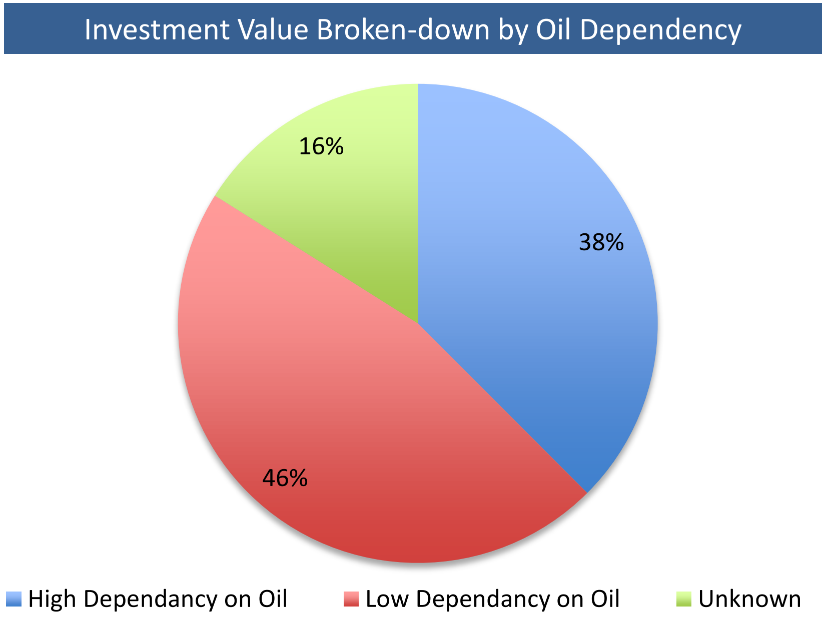
More recently, there has already been an upward incline in transactions despite sluggish oil prices, indicating that the era of adverse sentiments may already well be coming to an end, as the “decoupling” effect takes place.

Oil and Demographics

“I don't see the logic of rejecting data just because they seem incredible” - Fred Hoyle

Dubai Investors Split Between Oil and Non-Oil Dependent Countries

	% of Value of Investments*	% of GDP derived from Oil**
Jordan	3%	0.00%
Lebanon	2%	0.00%
Palestine	1%	0.00%
Syria	0%	0.00%
Tajikistan	3%	0.20%
England	8%	0.80%
Pakistan	6%	0.90%
USA	1%	1.00%
India	15%	1.20%
China	2%	1.20%
Canada	3%	4.00%
Egypt	2%	7.00%
Yemen	1%	11.10%
Russia	2%	13.70%
Bahrain	1%	17.10%
UAE	19%	22%
Algeria	0%	21.60%
Qatar	2%	23.40%
Oman	1%	34.50%
iraq	2%	42.90%
Saudi Arabia	7%	43.60%
Libya	0%	44.20%
Kuwait	3%	57.50%
Others	16%	-



A break-down of the nationalities of the real estate investments in Dubai reveals that a 46% are from countries that have a low dependency of revenues from Oil, whereas 38% is from oil dependent nations. This telling statistic is an indictor of the diversified source of investment inflows, and is likely to continue, leading to a cushioning of the adverse impact of oil prices.

*Dubai Land Department
** World Bank (2013)

Average Investment per person (Country-wise breakdown)

GCC National

Country	Average Spent Per Investor
UAE	3,969,812
Qatar	3,500,626
Bahrain	3,391,156
Kuwait	3,194,270
Oman	3,106,538
Saudi Arabia	2,936,177

Source: Dubai Land Department

Arab Nations

Country	Average Spent Per Investor
Libya	2,708,571
Iraq	2,480,723
Lebanon	2,374,296
Jordan	2,315,963
Egypt	1,836,691
Others	1,829,919
Yemen	1,805,556
Syria	1,613,445
Algeria	1,521,595
Palestine	1,515,770

Foreigners

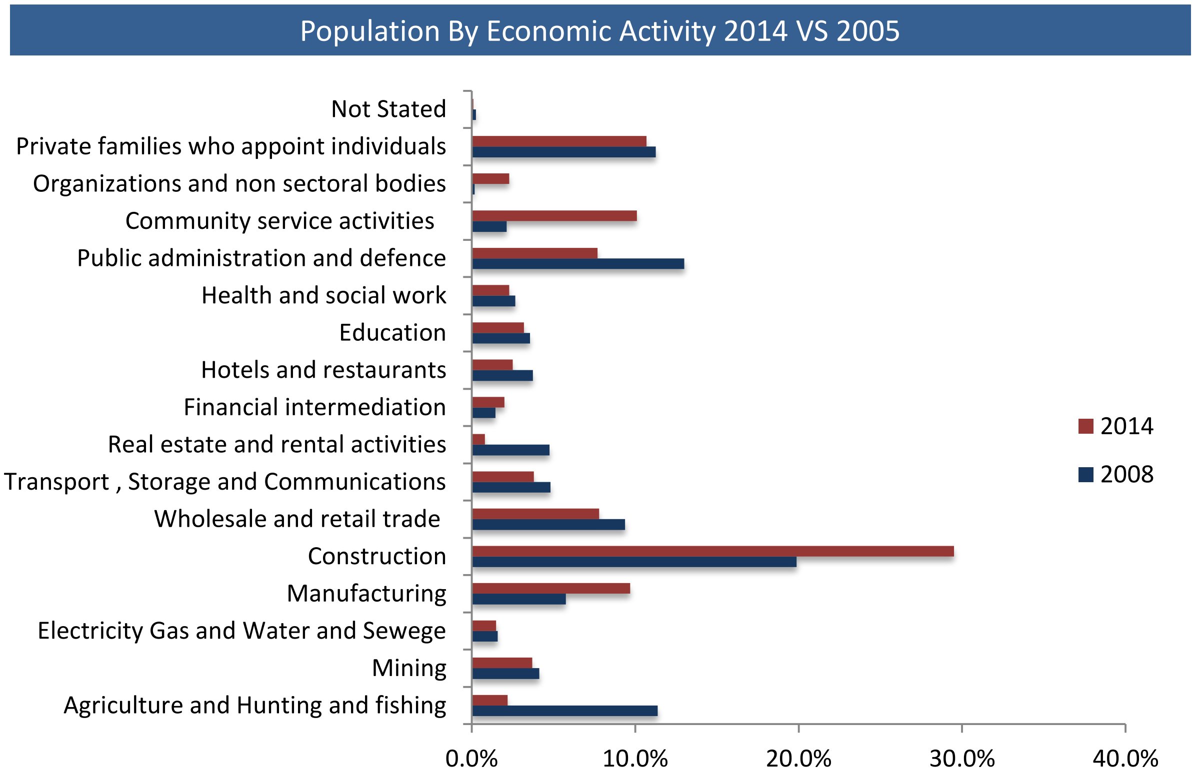
Country	Average Spent Per Investor
Tajikistan	2,503,784
Canada	2,481,506
India	2,377,113
Others	2,274,406
England	2,225,404
Russia	2,015,385
USA	1,989,680
China	1,807,854
Pakistan	1,391,910

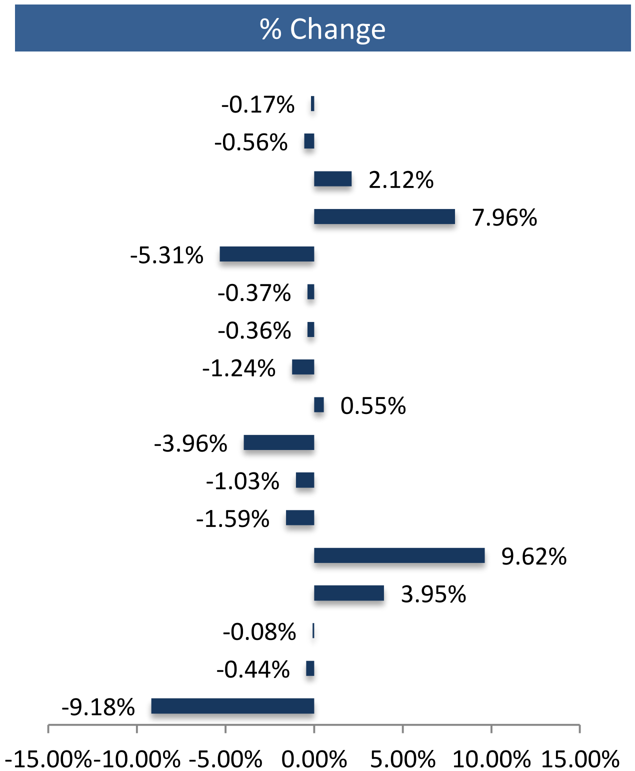
The above charts reveals the average spend per investor by nationality. Within the GCC, UAE national spend the highest amount in Dubai real estate followed by Qatar. Whereas in the foreigners Tajikistan and Canada have highest average spend per investor, whilst China and Pakistan have the lowest. These non oil dependent nationality investment inflows are likely to continue, as their reasons for investment are exogenous to the direction of oil prices; in point of fact we opine that inflows from these countries will likely increase as investors capitalize on falling prices thereby acting as a “stabilizer” to prices.

Dubai and Abu Dhabi Employment Break-Down

"There is no Dubai and Abu Dhabi; we are one. Whoever doesn't understand this should do their homework before they start talking. We will be there for each other when we need it" - Mohammed bin Rashid Al Maktoum

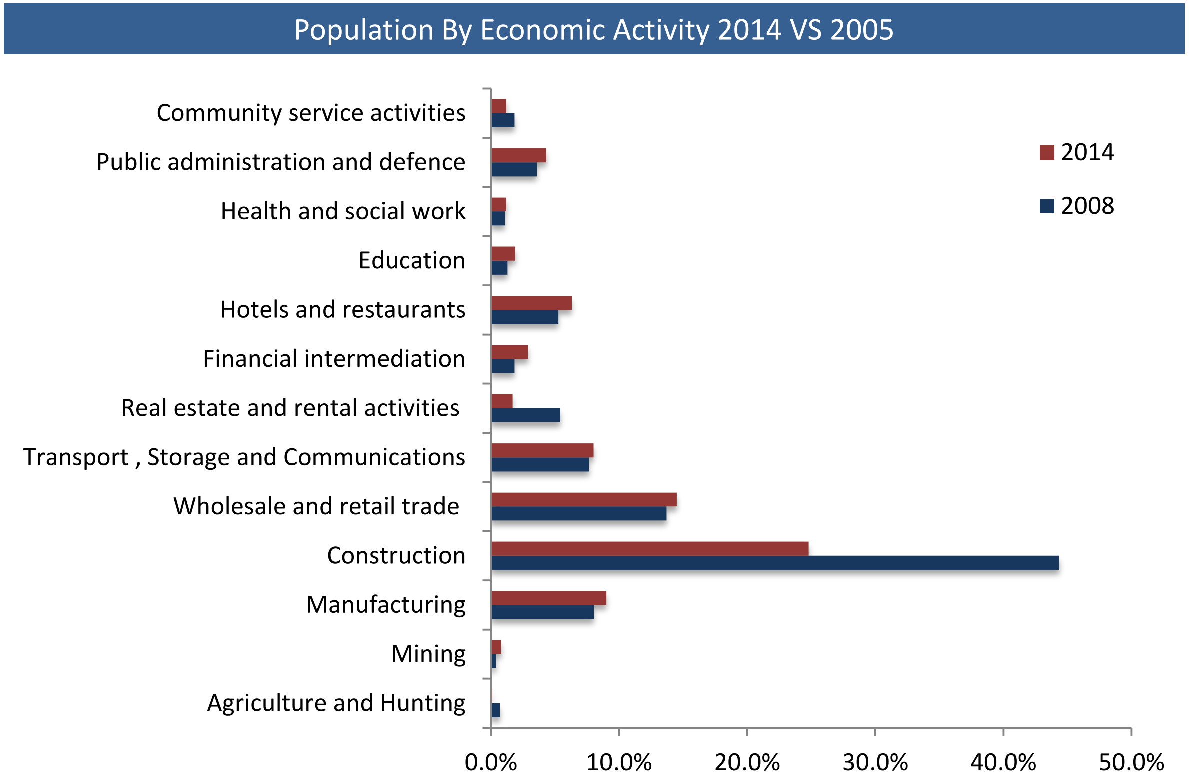
Population by Sector: A closer look into Abu Dubai

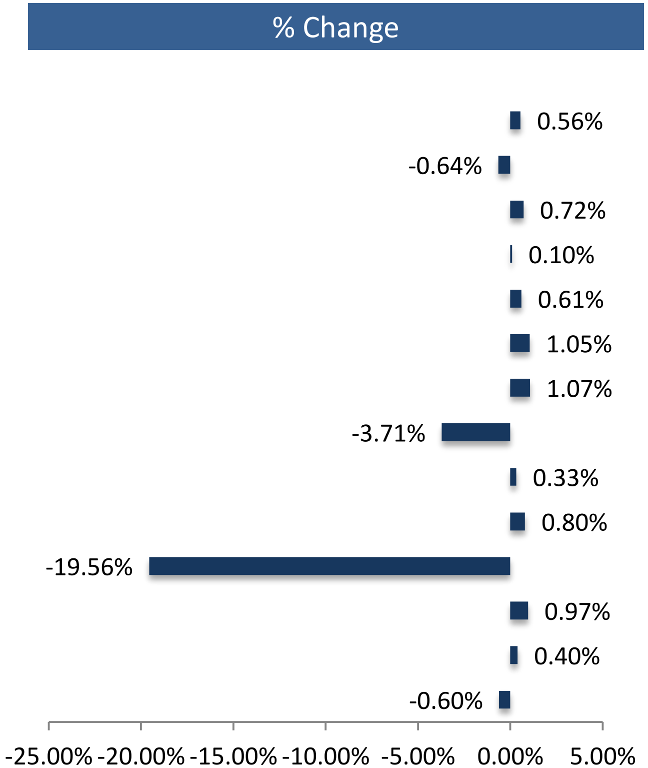




As the above chart reveals, the composition of employment in Abu Dhabi has skewed towards an increasing weightage in construction in lines with its ambitious development of the city for its 2030 master plan. Whilst some of these projects may be delayed in light of lower oil prices, the changing composition of employment reveals an increasing emphasis on private sector employment and the diversified nature of its activity indicates that the city may be cushioned from the deleterious impact of reduced oil prices as it seeks to further diversify its economic base.

Population by Sector: A closer look into Dubai





In Dubai, the weightage of employment in construction has actually decreased, indicating that the city has moved farther in diversification of its economic base. This is a further indicator of the reduced impact that oil prices will likely have on employment and therefore real estate demand. This diversified economic base, along with investment flows (a significant percentage of which accrue from non oil dependent countries) foretell that the likely impact of reduced oil prices will not be long lasting.

Conclusions

An analysis across multiple countries reveals that there is a correlation between oil prices and the performance of the real estate sector

46% of real estate investments in Dubai are from non-oil dependent countries whereas 38% is from oil dependent nations.

Global Real Estate Markets and Oil

There is a reasonable correlation between oil prices and real estate prices of cities that are dependent on the energy sector.

A global look into this reveals that this trend has played out in Canada and Norway. For example Edmonton and Calgary, which are highly dependent on the energy sector, have underperformed cities that have a low dependence on oil such as Vancouver and Toronto in the last 18 months.

However, in the USA the results were mixed between real estate assets and oil prices.

Transactions, Prices and Oil

Dubai has low correlation between oil prices and transactions. The recent slow down in activity is a consequence of multiple factors compared to the crash of oil prices. These factors include the strengthening of the dollar, flurry of off-plan launches, and geo-political issues.

A similar correlation was found between real estate prices and oil.

More recently, there has already been an upward incline in transactions despite sluggish oil prices, indicating that the era of adverse sentiments may already well be coming to an end, as the "decoupling" effect takes place.

Structure of Dubai's Investor Base

A dissection of the investor base of Dubai reveals that 46% are from countries that have a low dependency of revenues from Oil, whereas 38% is from oil dependent nations.

Within the GCC, UAE national spend the highest amount in Dubai real estate followed by Qatar. Whereas in the foreigners Tajikistan and Canada have highest average spend per investor, whilst China and Pakistan have the lowest.

The non oil dependent nationality investment inflows are likely to continue, as their reasons for investment are exogenous to the direction of oil prices;

Dubai and Abu Dhabi

A structural comparison between Dubai and Abu Dhabi reveals that the later has increased its employment weightage towards construction, where as the former has decreased it.

In both cases it reveals the diversity away from oil have transpired creating a cushion from the deleterious impact of reduced oil prices

The diversified economic base, along with investment flows (a significant percentage of which accrue from non oil dependent countries) foretell that the likely impact of reduced oil prices will not be long lasting.

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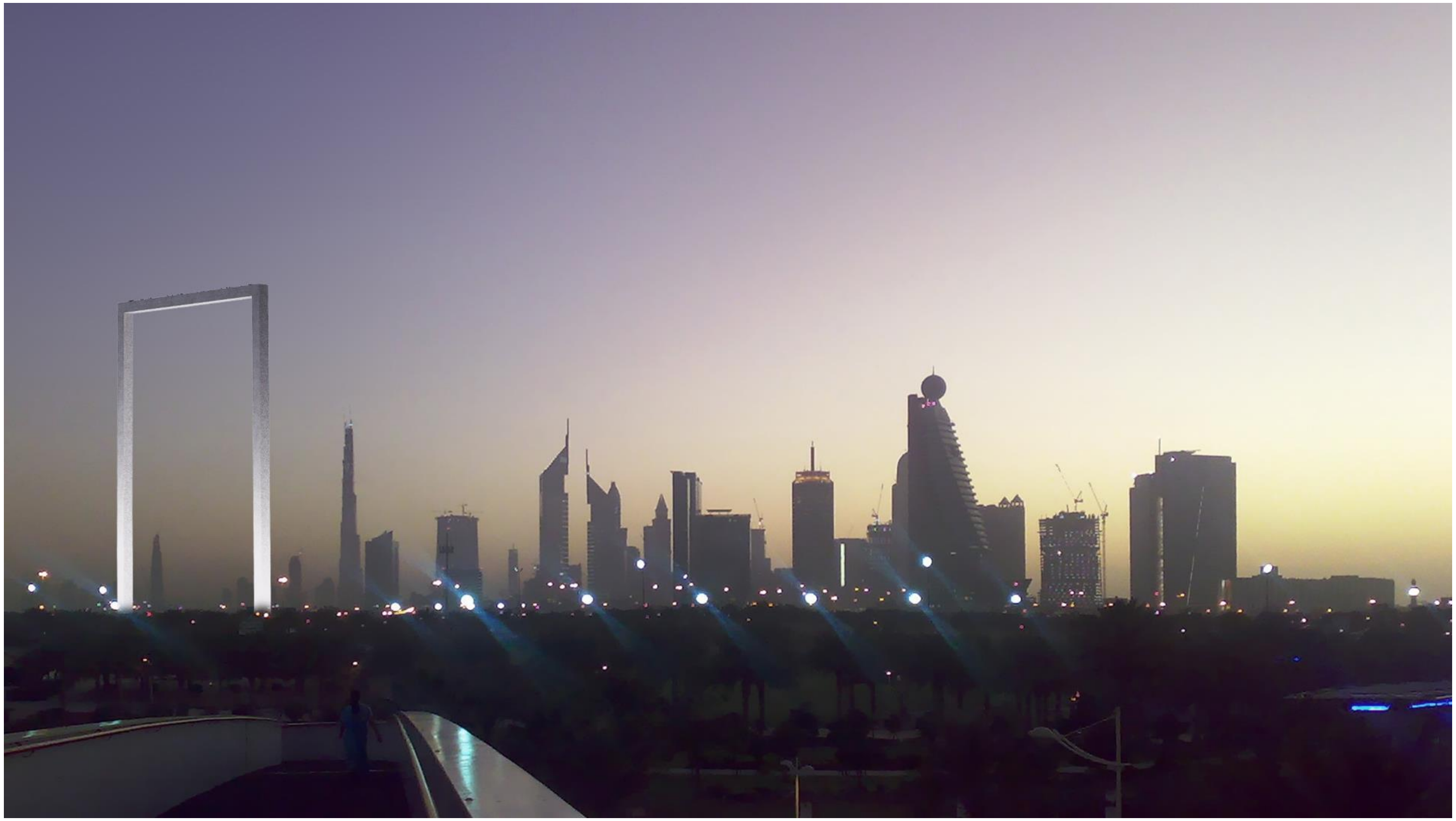

"No barrier can withstand the strength of purpose"

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

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