Unitas Consultancy

STRICTLY CONFIDENTIAL

Dubai: What Now?

Q4 2013

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Executive Summary

- Dubai's continued population growth of 5% CAGR over the last 6 years, supported by key macro fundamentals has created a consistent demand for residential housing. An analysis of the injection of new residential units over the next couple of years is skewed towards Prime (32%) and High-Mid (20%) localities compared to the Mid level areas (17%). The Mid-income segment, accounting for nearly half of the population is the greatest demand driver for residential units, but is the most under-serviced in terms of new supply.

- An analysis of rental and price growth across the market segments reveals that prices have risen nearly twice as fast as rents in the prime market segment, a classical indicator of market overheating and the emergence of the "trophy buying" phenomenon; in the mid income segment, however, the two variables have grown at roughly the same rates. This has resulted in a yield compression in the former (a fall from 5.5% to approximately 4%), whereas in the latter, yields are hovering at a compelling value of 6.5-7%, indicating that there is substantial upside potential in this segment.

- As investors start to look for new opportunities in the real-estate market the best investment for ready units are those with the least difference between its current value and its replacement value. A replacement value analysis in regards to developing areas across Dubai shows that the most amount of value can be seen in International City P II & III and the Dubai World District district (the development of which will be expedited now that the world expo bid has been won, but would have played out in any event as fundamentals assert themselves). We opine that through the process of mean reversion, the upside potential is the highest in the mid income segment of the residential real estate segment

- Dubai's win to host the World Expo 2020 will act as a catalyst in expediting Dubai's infrastructural roll out, especially the Dubai World Central District. The long-term effects of job creation, population growth and tourism surge will be experienced towards the later part of the decade. However, in the short-term we expect to see an increase in the development of infrastructure surrounding the World Expo site, creating a ripple effect for an increase in demand for surrounding communities such as DIC, DIP, Al-Furjan, Jumeirah Village and Sports City.

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Supply and Demand Dynamics of the Housing Market

“People say the sky is the limit of ambitions and we say that the sky and the atmosphere is just the beginning”
- HH General Sheikh Mohammed Bin Rashid Al Maktoum

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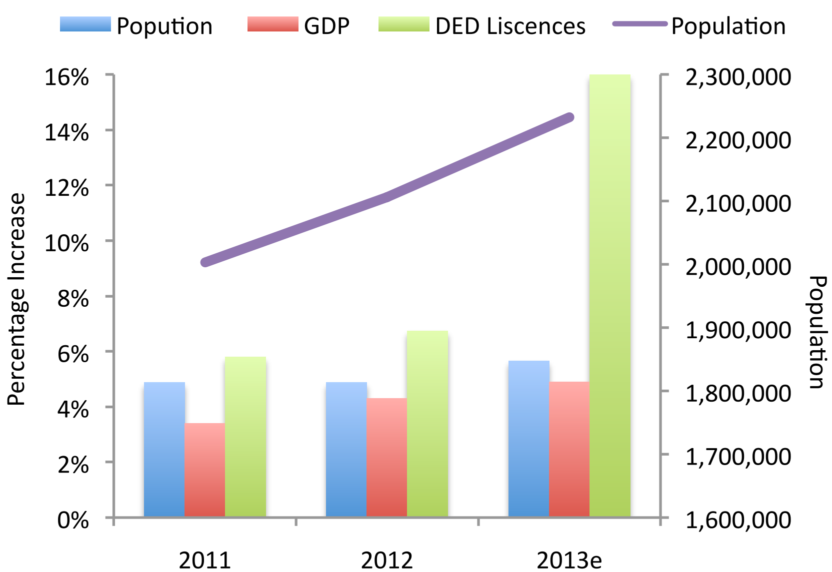
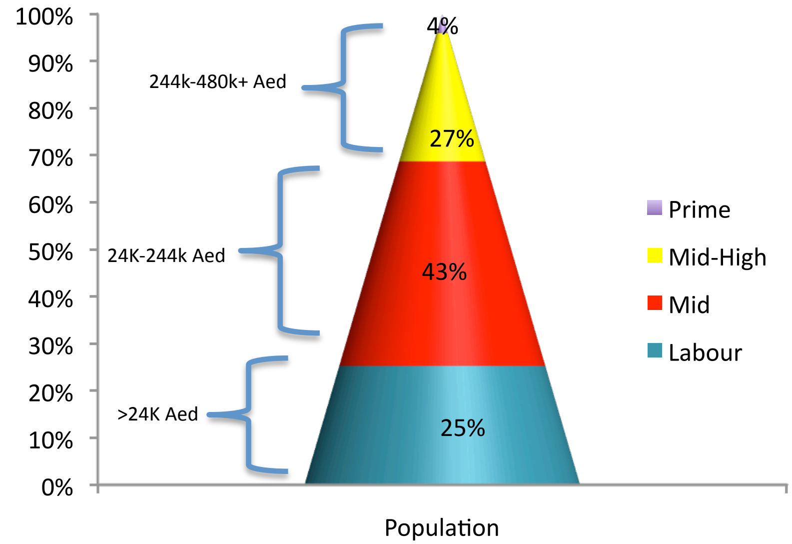
Continued Population Growth is the Key to Stimulate Residential Demand

GDP VS Population VS DED Licenses (Growth Rate)



Population by Income-Segmentation



As Dubai marches into 2014, a continued population growth of 5% CAGR over the last 6 years has been the driving force in stimulating residential real-estate demand. Over the last 4 years, a steady growth in business activity, coupled with an increase in FDI, has lead to a average annual growth of GDP of 4%.

An income-segmentation analysis leads us to believe that the major demand for housing will be from the Mid income Segment over the next 5 years as it accounts for nearly half of the population, and is the most under-serviced in regards to new supply.

Source: Dubai Statistics Department

Dubai’s Free-hold Residential Supply (2014-2016)

Mid Level Housing (>1000 AED/SQFT)

Area	Current Supply	New Supply ’14-’16
Discovery Garden	18,841	0
Dubai Sports City	5,614	5,490
Jumeriah Village	7,777	4,669
IMPZ	4456	0
DSO	8,000	4,000
International City	32,103	0
Motor City	3661	0
Masakin	335	0
DIP	906	0
TOTAL	**81,693**	**14,159**

17% Increase in Supply

Mid-High Housing (1000-1600 AED/SEFT)

Area	Current Supply	New Supply ’14-’16
TECOM	7,813	1,838
Emirates Living	14,765	308
Jumeriah Heights	250	1,434
Al-Furjan	819	0
JLT	11450	0
Arabian Ranches	4259	562
Jumeriah Park	1780	0
Non Prime Marina	23,046	0
Business Bay	6,731	806
Greens	4012	0
Victory Heights	944	0
Dubai Land	462	7,506
Warsan Village	-	1,190
The Hills	-	400
Dubai Sustainable City	-	500
Mirdiff	4,932	2,054
TOTAL	**81,263**	**16,598**

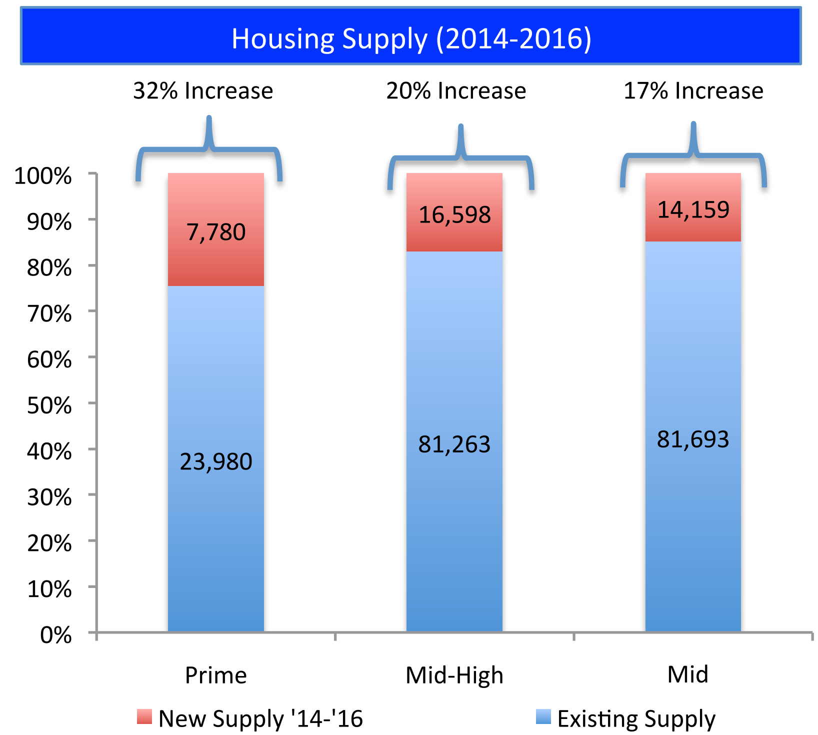
20% Increase in Supply

Prime-Housing (1600+ AED/SQFT)

Area	Current Supply	New Supply ’14-’16
Emirates Hills	700	0
Al Barari	196	0
Downtown	7919	2,535
Palm Jumeriah	7460	170
Dubai Marina	6384	2,624
Jumeriah Islands	736	0
JGE	585	329
Dubai Hills	0	1,000
MBR CITY	0	350
Meydan Heights	0	528
Race Course Villas	0	70
Meydan Business Park	0	120
Total	**23,980**	**7,780**

32% Increase in Supply

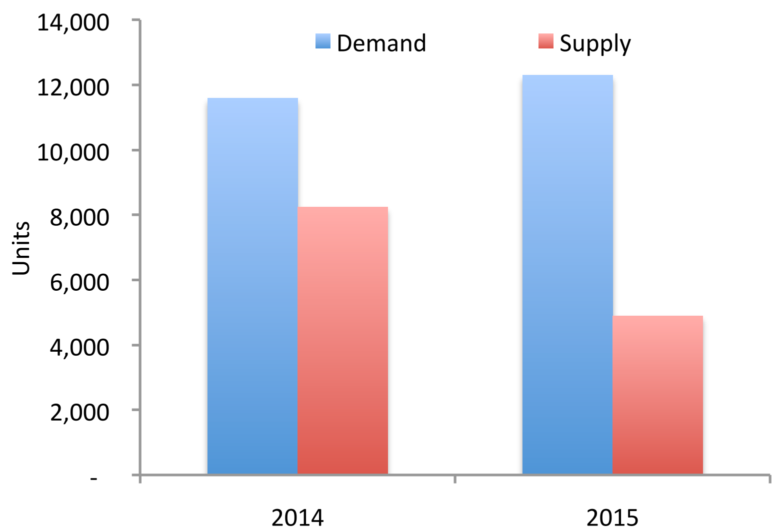
Prime Areas Expected to Incur the Highest Increase in Supply of Residential Units



An estimated number of 38,537 units will enter the residential housing supply by 2016 of which 20% will be from Prime localities. The dissection of the new supply being injected into the market shows that Prime localities will have the greatest increase of units of 32%, where as Mid housing areas will have the least of 17%.

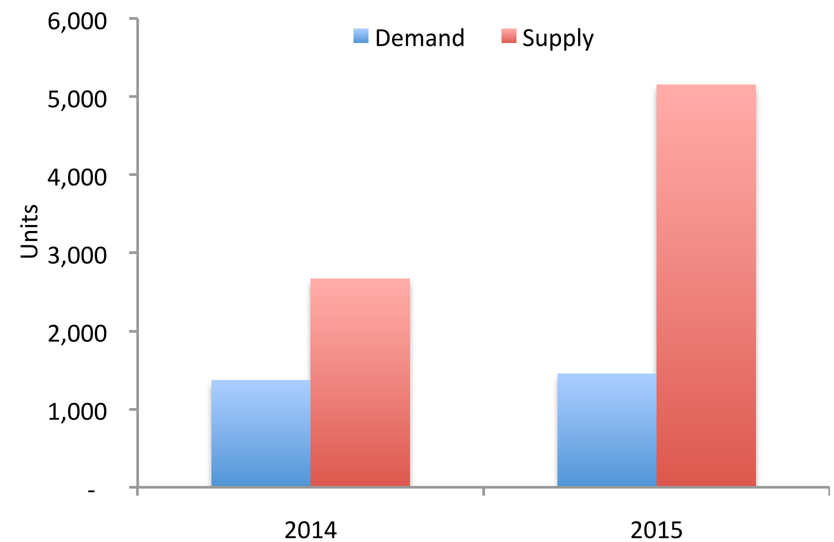
Imbalance of Supply and Demand Dynamics: 2014-2015

Mid Segment: Incremental Demand and Supply



	2014e	2015e
Incremental Population	57,986	61,465
Demand of Units	11,597	12,293
Supply of Units	8,236	4,899
Excess / Shortage	(3,371)	(7,394)

Prime Segment: Incremental Demand and Supply



	2014e	2015e
Incremental Population	5,478	5,806
Demand of Units	1,369	1,452
Supply of Units	2,667	5,154
Excess / Shortage	1,298	3,702

There is a disparity between new supply and incremental demand of units in Prime and Mid Housing localities over the next couple of years. Supply of Prime units outstrip demand, whereas the Mid housing segment faces lack of supply. This shortage will be partially compensated by existing communities that have existing vacant capacity such as Sports City, IMPZ and DSO, but even factoring for this, it is evident that there needs to be a substantial building of capacity to cater to the latent pent up demand that the city has; equally clear is the fact that this supply will enter the market over a medium term scenario, thereby exerting a continued upward pressure on both prices and rental rates in the 3-5 year horizon

Projections made by Unitas Consultancy

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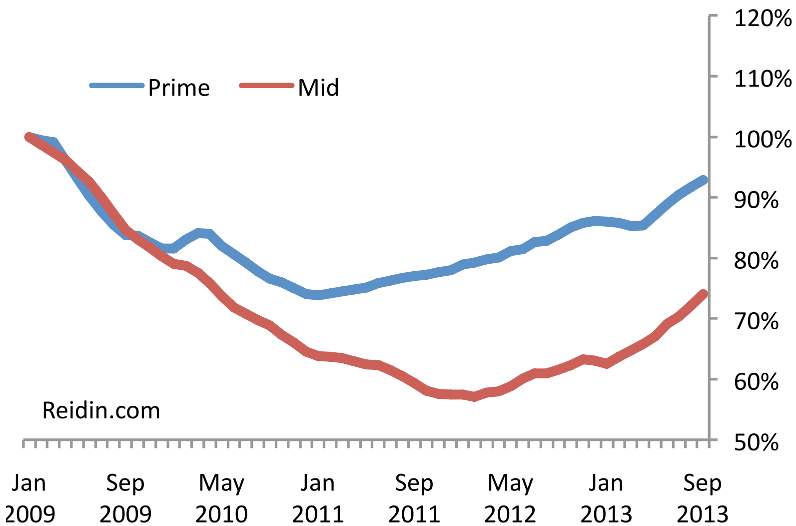
Prime Housing Versus Mid Housing Market

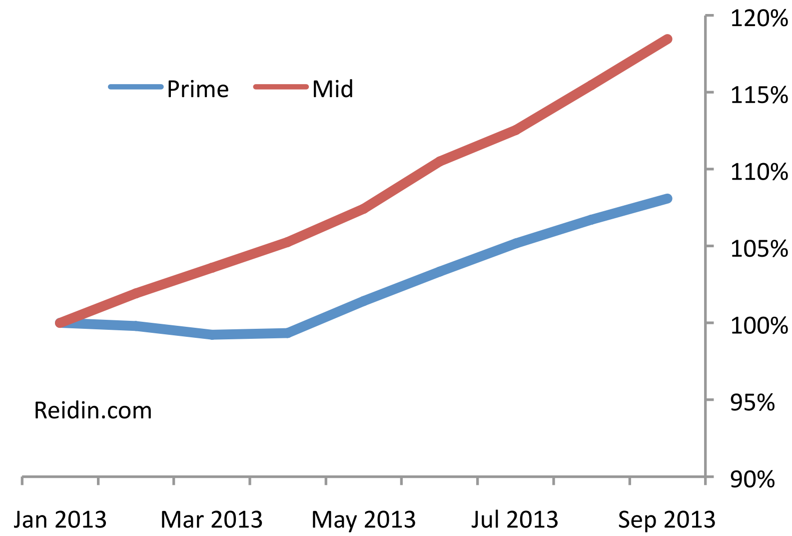
"Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value" - Warren Buffett

Rental Growth Rates Higher in the Mid-Housing Segment

Prime Vs Mid Rentals (2009-2013)



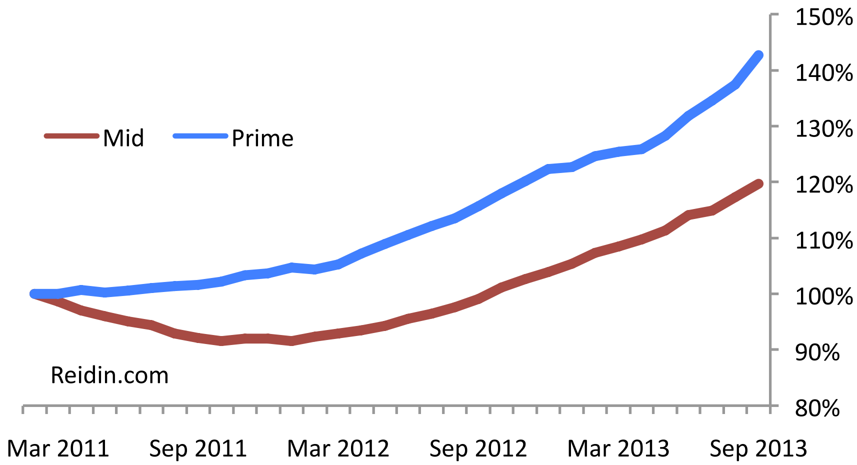
Prime Vs Mid Rentals (2013)



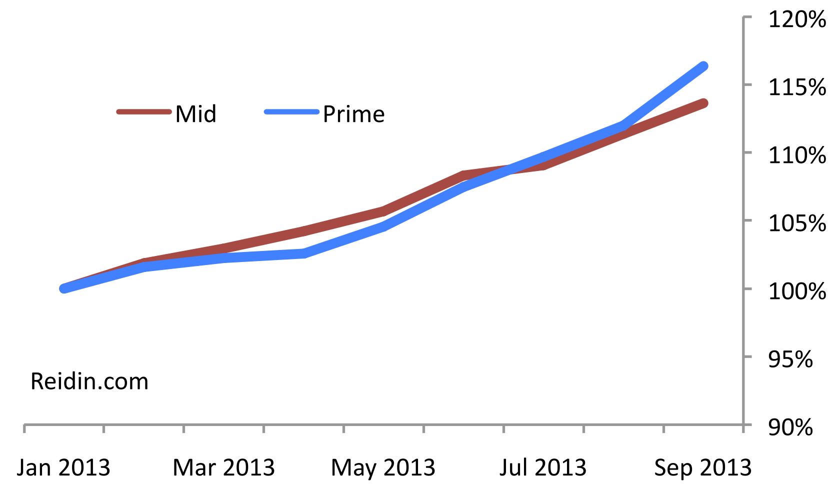
Over a four year period rents in the Mid-housing market have under-performed compared to Prime localities by 20%, whereas in the last year the Mid-housing segment out-performed by 11%. This increase in rental growth rates can be attributed to the burgeoning demand created by a growing middle-class, as well as inadequate supply. Sectors such as manufacturing and hospitality, which expanded by 13% and 17% last year, has created a demand of jobs predominantly falling into the middle-income segment.

Similar Trends Witnessed in Prices between Prime Localities and the Mid Housing Segment

Prime Vs Mid Prices (2011-2013)



Prime Vs Mid Prices (2013)



In the last year Dubai witnessed a paradigm shift, where both housing segments appreciated at similar rate of 15%, which has been against historical trends where prime localities have been the leader. The plethora of new projects that have been launched in the Prime segment such as MBR City, Meydan Heights, Dubai Hills has created the possibility of surplus supply into the market, slowing price appreciation, as developers start to focus on the "trophy buying" phenomenon. We expect these trends to remain as the pipeline of new and stalled Trophy properties (i.e. MBR City P II&III, Palm Jabel Ali, Waterfront) come on stream.

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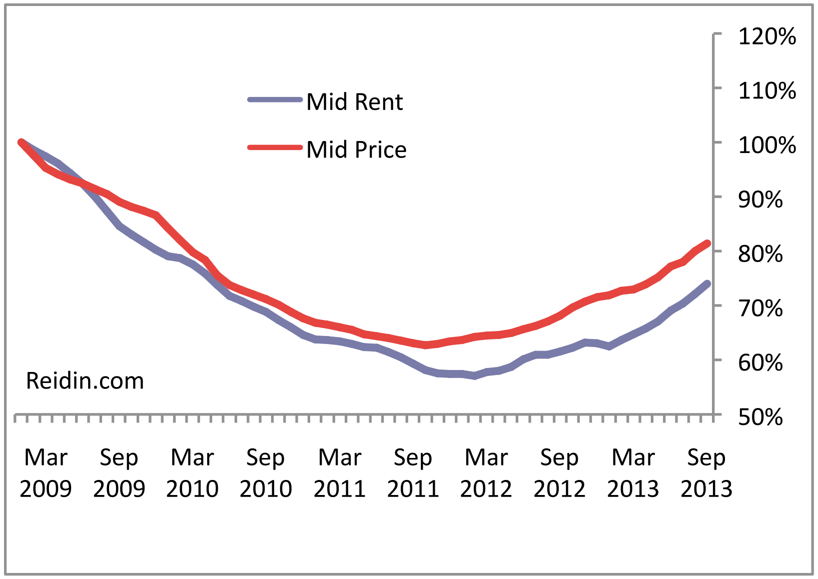
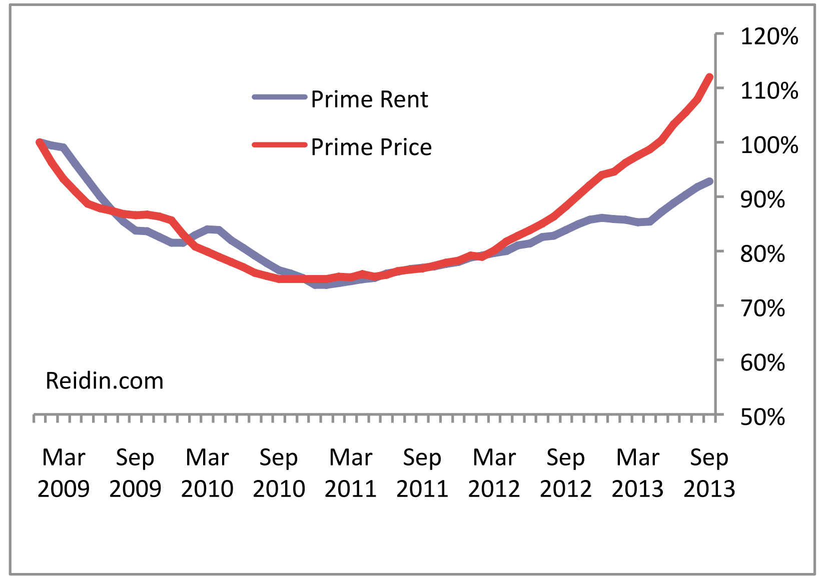
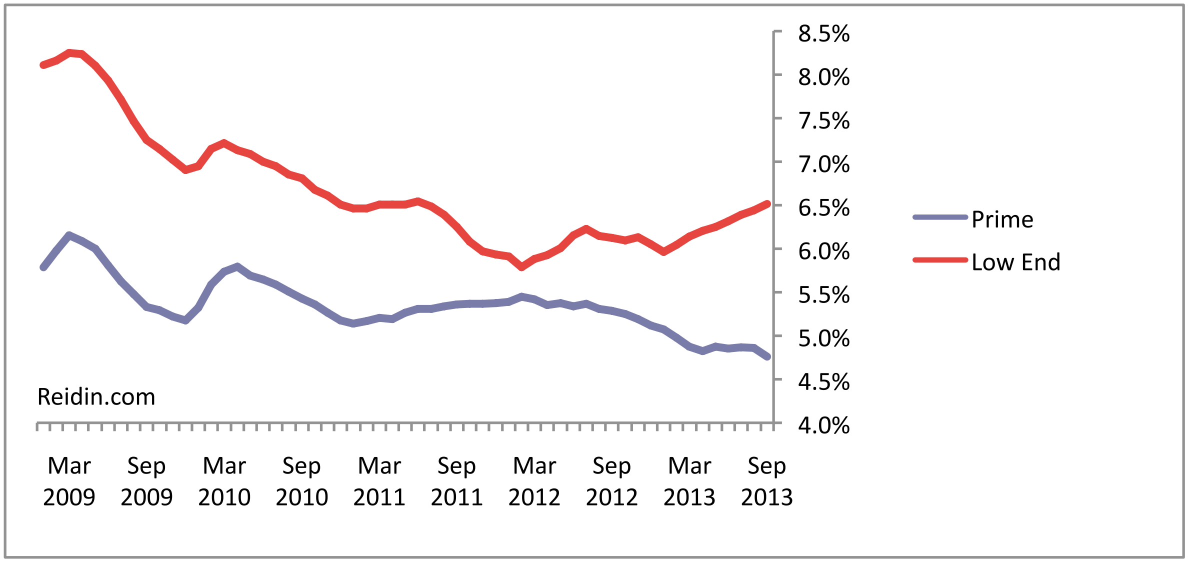
In Prime Locality Prices Diverge from Rents, Resulting in a Diminishing Rental Yield



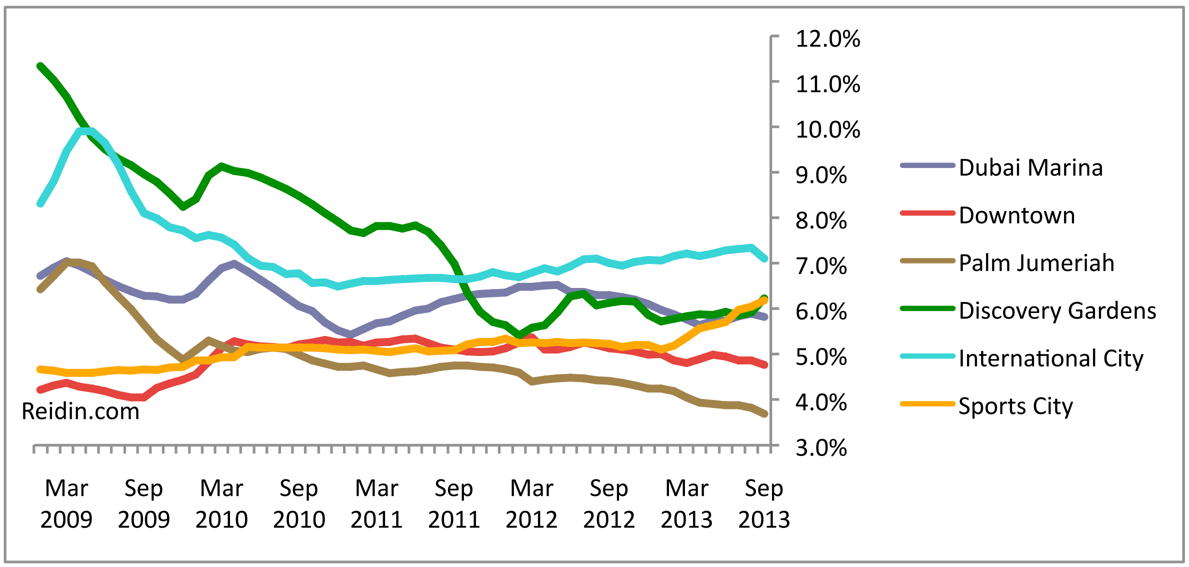


A classical real estate valuation indicator reveals that over the last five years, the prime real estate segment is starting to exhibit "overheating" tendencies, as price rises outpace rental growth rates; whereas in the mid income segment the two variables have moved more or less in tandem. The resultant yield compression in the former is clearly illustrated in the following slide, indicating that the market is anticipating the relative increase and possible over supply in this segment.

Mid Housing – A Better Net Rental Yield !



A Rental net yield analysis between the Prime and Mid housing segment indicates that the Mid housing market gives an investor an additional 2% rental yield, relative to Prime Housing. However, as the imbalance between supply and demands across both segment increase, we expect that gap to widen. The higher rental yield coupled with the strong appreciation rates (inline with growth rates of prime localities) make the Mid housing segment a more attractive real-estate investment.



A granular analysis indicates that International City yields the highest return at 7%, followed by Sports City and Discovery Gardens at 6%. At the lower-end of the spectrum we find Palm Jumeirah that gives net returns of just below 4%.

Net Yields take into account maintenance fees

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Where to Find Value?

“It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price” - Warren Buffett

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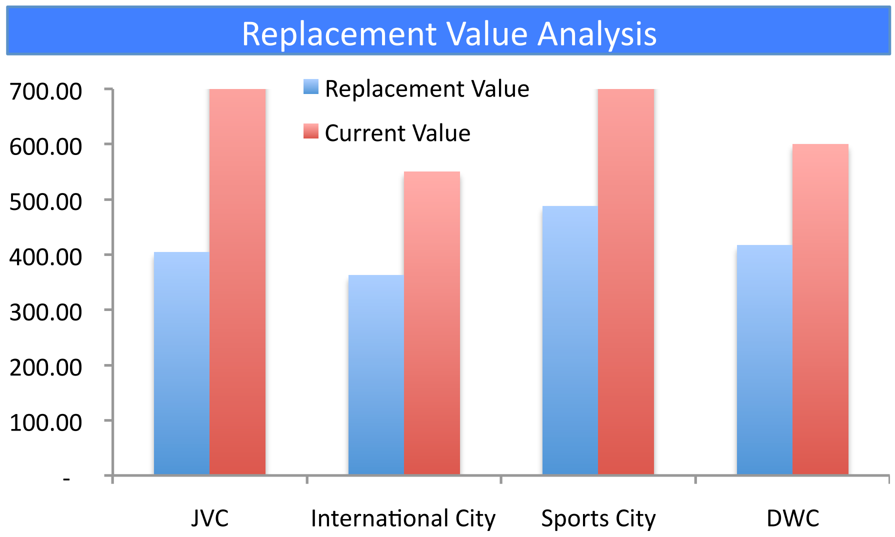
Where is the Greatest Value for Money?



Area	Replacement Value	Current Value	Difference
JVC	404.17	700	**295.83**
International City	354.17	550	**195.83**
Sports City	487.50	700	**212.50**
DWC	416.67	600	**183.33**

A replacement value analysis across certain communities in Dubai suggests that the best investment for ready units are those with the least difference between its current value and its replacement value. In regards to developing areas across Dubai the most amount of value can be seen in International City P II & III and the Dubai World District district. In addition, both these areas serve as repositories for housing the mid-income segment of the population. We also expect to see a surge in developments inflating land prices in the DWC area, as it hosts the World Expo Site and is also home to the new Al-Maktoum International airport.

The replacement value analysis is based on an G+4

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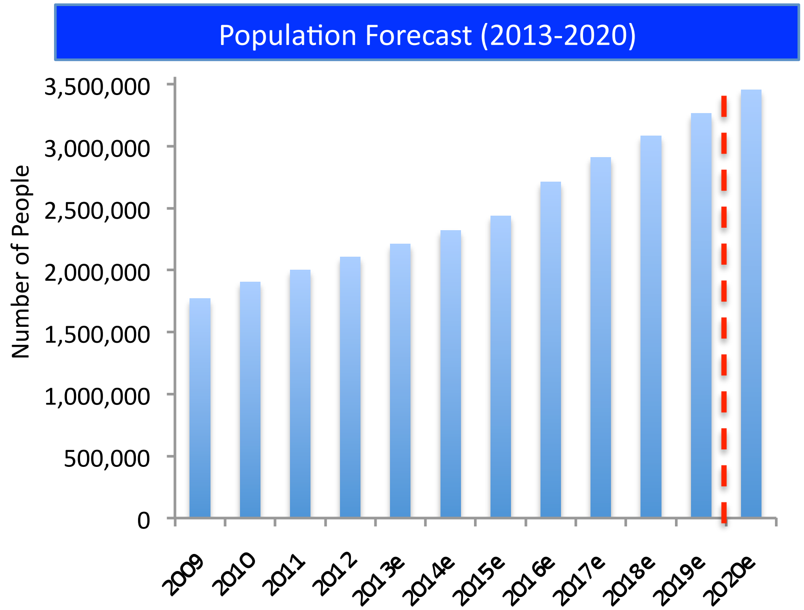
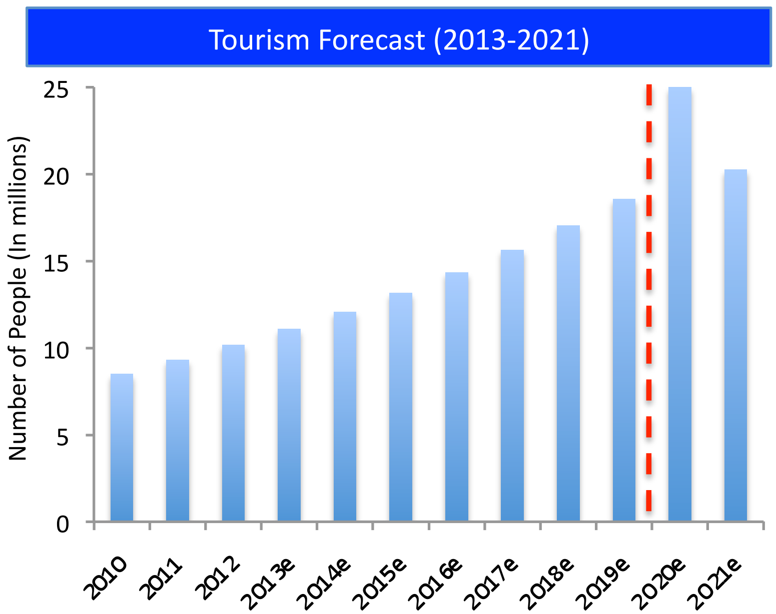
The World Expo 2020 – We Won!

"Connecting Minds, Creating the Future"

Dubai's Road to Host the World Expo 2020 …



According to projections by Oxford Economics, the Expo 2020 Dubai is expected to account for a total economic output of nearly AED 142 billion with 277,000 employment opportunities being created between 2013 and 2021. The report estimates that 90% of the projected 277,149 employment opportunities would occur from 2018 to 2021 with the ramp up to Expo 2020 and the demand generated by the 25 million expected visitors. Out of the 90%, 147,000 jobs would be created in the travel and tourism sector, indicating the significant potential to convert a high percentage into permanent jobs to serve the expanded economy in the post-Expo period.



The World Expo will act as a catalyst in expediting infrastructure roll out along the Muhammad bin Zayed Corridor, especially in the Dubai World Central District as it serves as the host to the World Expo Site. The tourism industry will be one of the pivotal drivers of the economy for the next decade. In addition to this the RTA said the extension of the Red Line was already on the agenda as part of the proposed rail network expansion plan but the project would be fast-tracked if Dubai secures the World Expo 2020 bid.

The Ripple Effect

As the Dubai gears up to build the infrastructure surrounding the World Expo, we expect to see an exponential increase in development in the Dubai World Central District as it is the host for the Expo site. Other areas with available supply in close proximity to DWC (shown above) will see a greater increase in demand for housing in the near term..

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Conclusions

The Mid income Segment will create the greatest demand for housing units as they account for nearly half of the population, and the are most under-serviced in regards to new supply

The World Expo 2020 will act as catalyst in expediting the infrastructural roll out along the Muhammad bin Zayed Road, especially in the Dubai World Central District as it serves as the host for the World Expo Site

Dynamics of the Housing Market

Dubai's population growth is supported by strong macro-fundamentals that is creating a consistent demand for residential units.

An analysis between incremental demand and new supply shows a shortfall in the mid-housing segments, whereas an excess in Prime localities.

We expect an increase in occupancy rates in other mid-housing segments such as IMPZ, DSO, and JVC to make up for the lack of new supply in the Mid-Housing Segment

Prime Versus Mid Housing

There has been a paradigm shift in the rental and price growth rates in the prices in the Prime and Mid-Housing segments, causing the net rental yields to swell in the latter and diminish in the former.

A granular analysis indicates that International City yields the highest return at 7%, followed by Sports City and Discovery Gardens at 6%. At the lower-end of the spectrum we find Palm Jumeirah that gives net returns of just below 4%.

Where to Find Value?

The best investment for ready units are those with the least difference between its current value and its replacement value.

A replacement value analysis across areas in Dubai suggest that International City P II & III and the Dubai World District district propose the greatest value. DWC is expected to see a surge in developments driven by the World Expo and the Al-Maktoom International Airport, further increasing the difference between replacement cost and current value. As the community starts to develop we will start to see less upside for investors.

The World Expo 2020 – We Won!

The World Expo 2020 will act as a catalyst in expediting Dubai's infrastructural roll out, especially the Dubai World Central District.

The major effects of the World Expo in terms of population increase, job creation and surge in tourism will not be seen until the back-end of 2020.

However, as Dubai start to roll its infrastructure we in preparation of the World Expo we expect to see a ripple effect in surrounding communities such as DIP, IMPZ, DIC, Sports City and Jumeirah Village

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 opportunistic manner

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

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