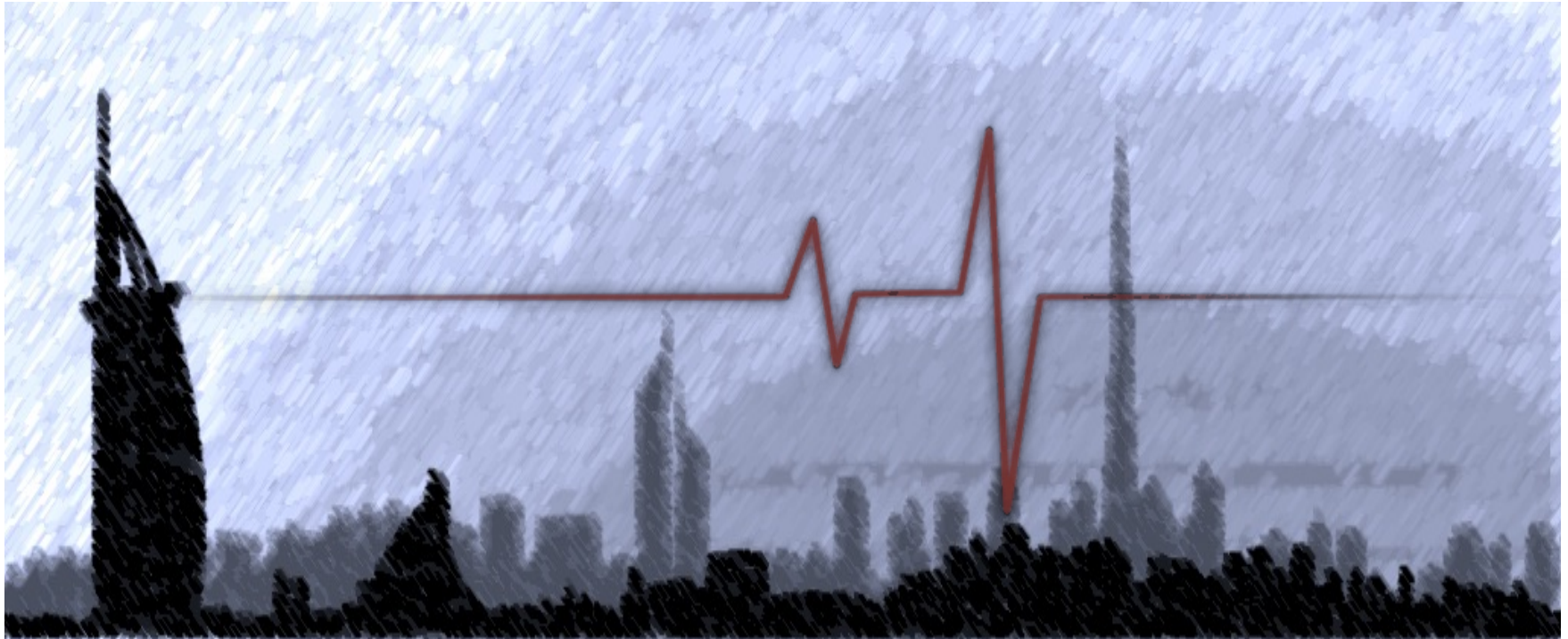


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Dubai: The Signal and the Noise

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Executive Summary

- An analysis of Dubai's real estate market reveals a cornucopia of indicators that are used to indicate buy/sell signals. Given the preponderance of concerns of supply, it is relevant to look at this indicator foremost and look at the impact of marginal supply on price levels.
- A supply/demand analysis against price levels clearly indicates that price activity has been influenced by expected supply dynamics. This was seen in 2008, and more recently has been seen in 2015 levels.
- However, the current fears about surplus supply may appear to be exaggerated given the three year actual as a percentage of expected supply(61%). This could lead to upward price movements as realized supply lags substantially behind expected numbers.
- Across the communities property prices have fallen from 13-27%, with the prime end of the market (>1500psf) having suffered the sharpest decline (26%) and the affordable segment (<1000psf), has suffered the lowest pace of price deceleration. This fall of different rates across the strata's can be attributed towards the degree of imbalance between supply and demand metrics.
- Gross yields have also been used as an indicator for relative buy/sell signals. A historical analysis suggests that the yield spread between the city wide average and the prime market spread signaled a trough in 2011. This was a buy signal for both city wide and prime properties, with the latter outperforming significantly. However, on a relative basis, the indicator signaled a sell in the second half of 2013; since then prime properties have significantly underperformed the city wide index.

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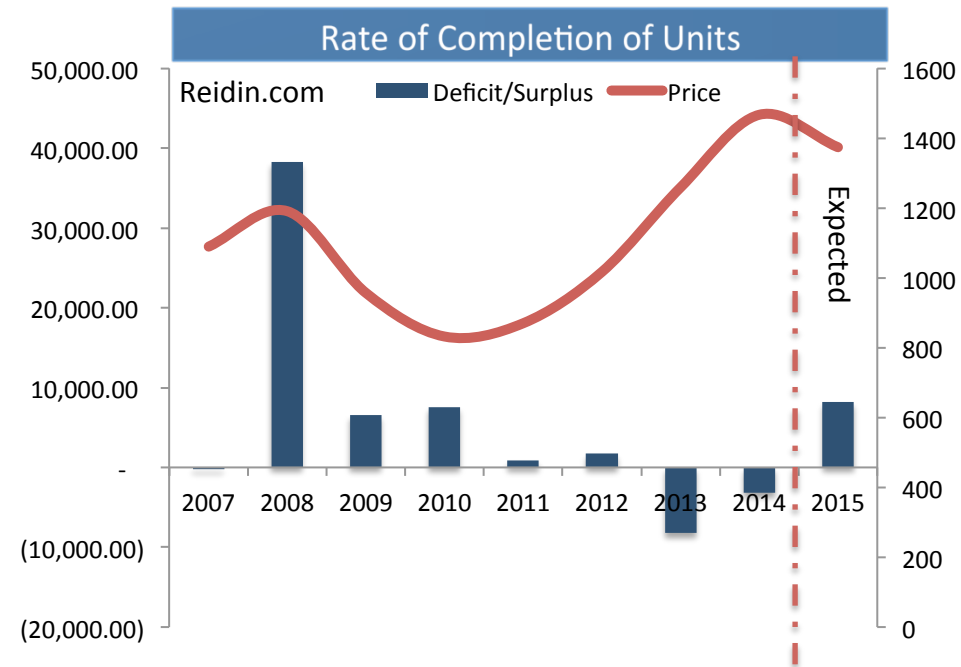
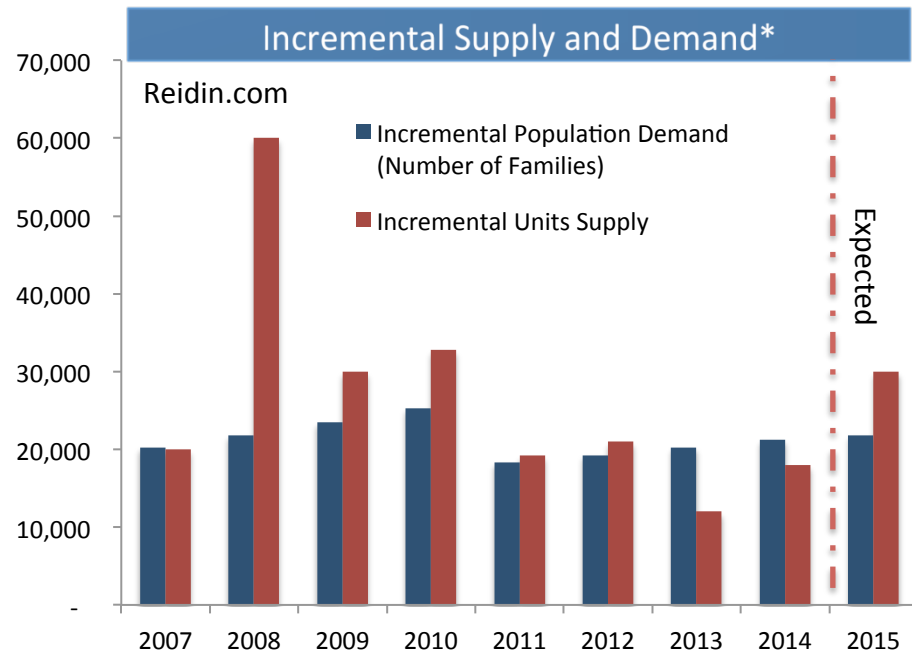
D) Conclusion

Supply and Demand Dynamics



“True genius resides in the capacity for evaluation of uncertain hazardous, and conflicting information” -
Winston Churchill

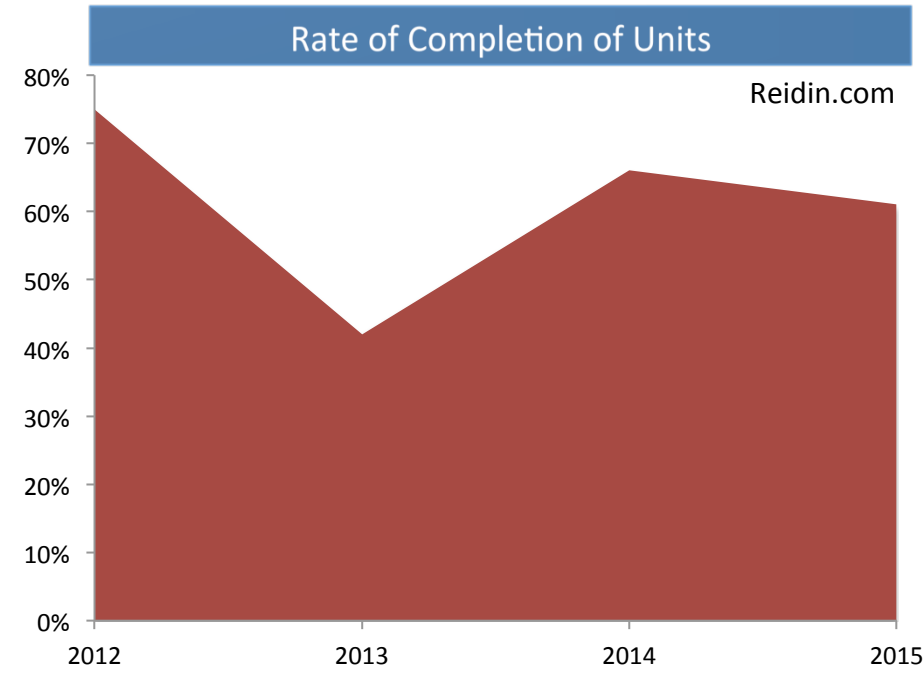
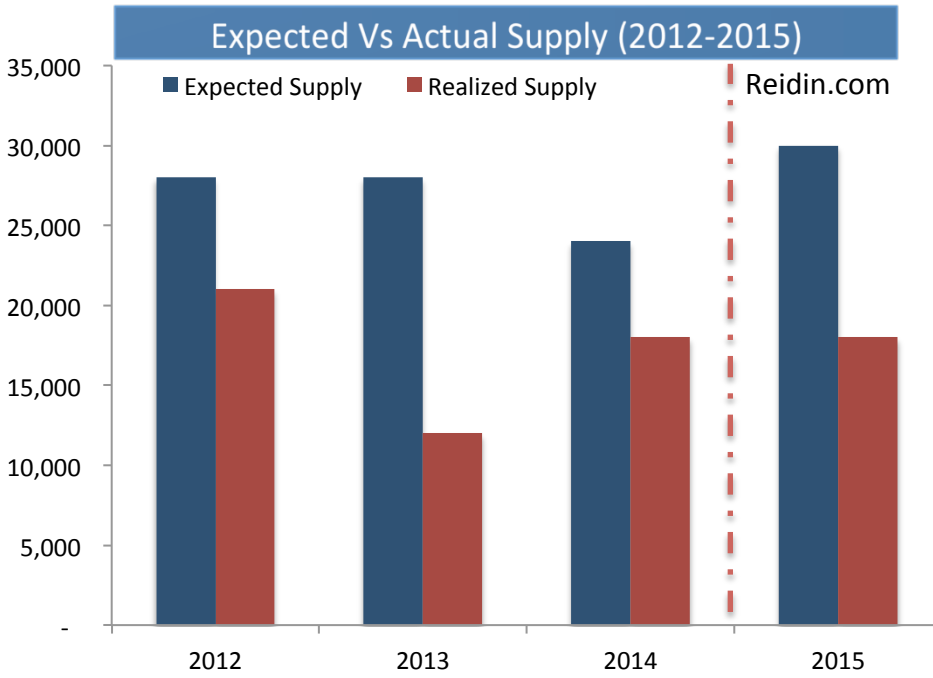
Supply Begins to Outstrip Demand ...



A supply/demand analysis of Dubai's real estate shows that price action has followed periods of imbalance between the two. In 2008, as supply exceeded demand, prices adjusted dramatically lower, and remained on a downward trajectory, until demand started to exceed supply in 2011. The upward price incline continued till 2014, at which point it appeared as if another inflection point had been reached; this coincided with expectations of supply once again outpacing demand for the year.

*Family size is defined as four people per unit

However, expected supply dynamics appear to have “Noise” embedded



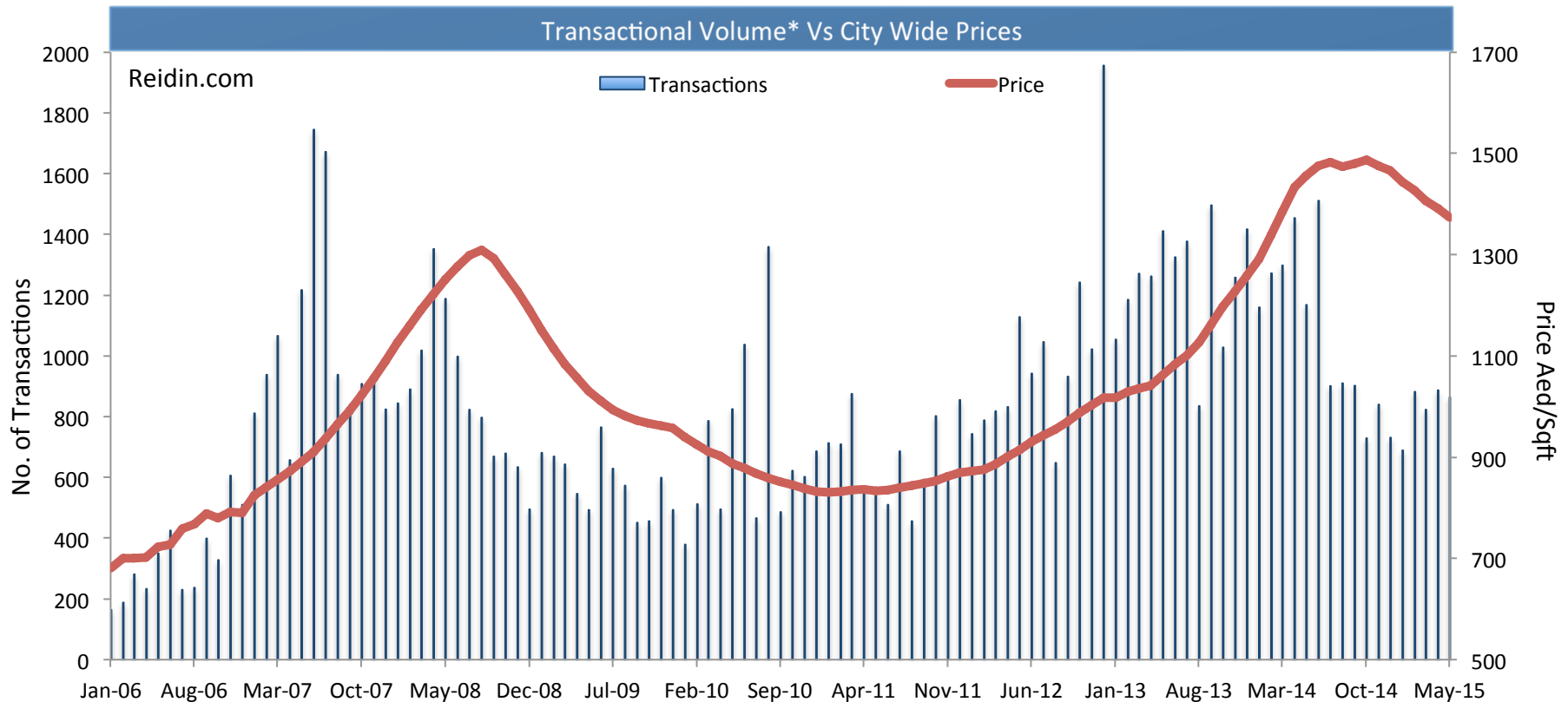
In the last three years Dubai has had an average completion rate of 61% of expected supply, highlighting the lag that is expected in on-going developments. Given that this trend is expected to continue, the concerns about excessive supply appear to be somewhat exaggerated, and could lead to upward price movements as realized supply lags substantially behind expected numbers.

Peak to Now



“Life is just a series of peaks and troughs, and you don't know whether you're in a trough until you're climbing out, or on a peak until you're coming down” – David Brent

Transactions and Prices



As highlighted in an earlier presentation (*Dubai: The Road Ahead¹*; Dated: May'14), transactional activity remains a leading indicator of price movements (strong correlation since 2006). With transactions down by over 26% on a year over year basis, prices have predictably followed suit. Whilst further micro structure research needs to take place, segmenting transactions by market strata, it appears as if price activity will remain subdued so long as transactional activity remains on a declining trend.

*Selected communities

¹www.reidin.com / www.globalcappartners.com

Price Movement by Market Segment

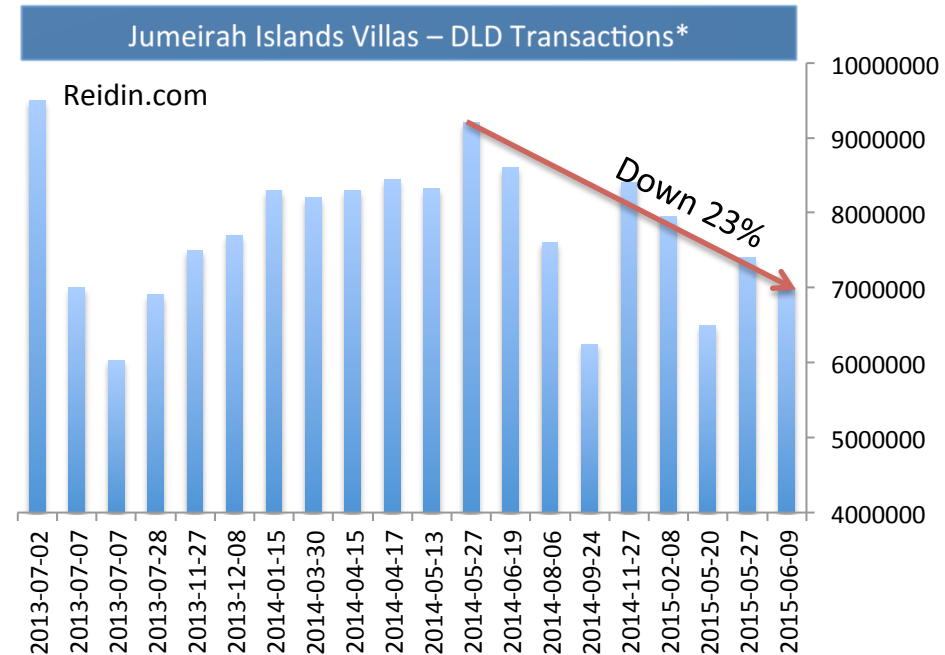
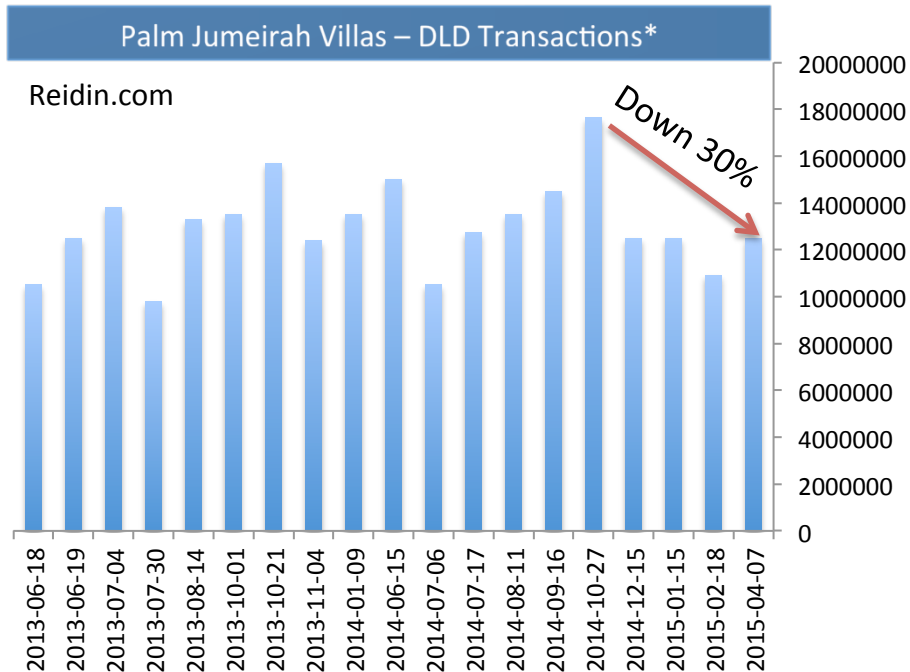
Supply and Demand				
Strata	% of Overall Supply '15	% of Population that Can Afford to Buy	% of Population that Can Afford to Rent	Prices: Peak to Now*
Prime	14%	2%	4%	-26%
High-End	32%	3%	9%	-17%
Affordable	54%	5%	87%	-13%

Reidin.com

Since the market peak in mid 2014, prices have declined by approximately 20% in various communities, with the prime-end of the market (>1500psf) having suffered the sharpest decline (26%) and the affordable segment (<1000psf), has suffered the lowest pace of price deceleration. This corresponds to the hypothesis that the real estate market had become top heavy, and at the lower end of the market there has been buying activity in select communities, to capitalize on price declines.

When a rental analysis is conducted, 87% of the population can access the affordable segment of the market, yet only 54% of the supply in 2015 was catering to this segment; this in turn suggests why the price decline has been the least in this segment and why rents have remained “sticky” in this strata.

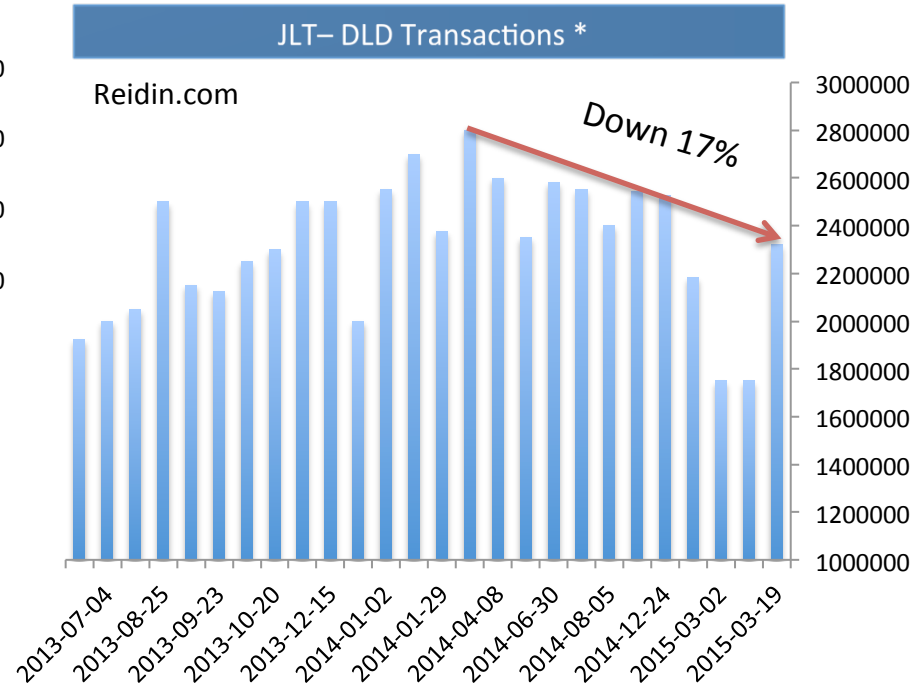
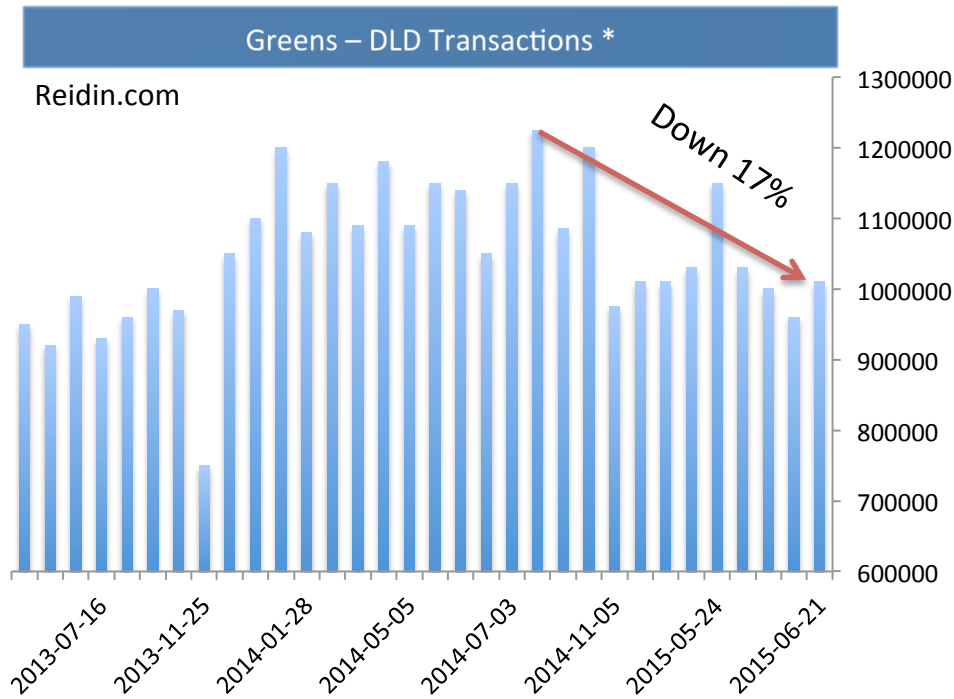
Prime Properties Incur Highest Drop



An analysis of cash transactions of Palm Jumeirah and Jumeirah Island Villas shows a 30% and 23% fall from their peak to current transacted prices. This has been the result of a manifestation of fears that the market has become top heavy and that there has been an over supply in the villa space.

*Similar types and sizes

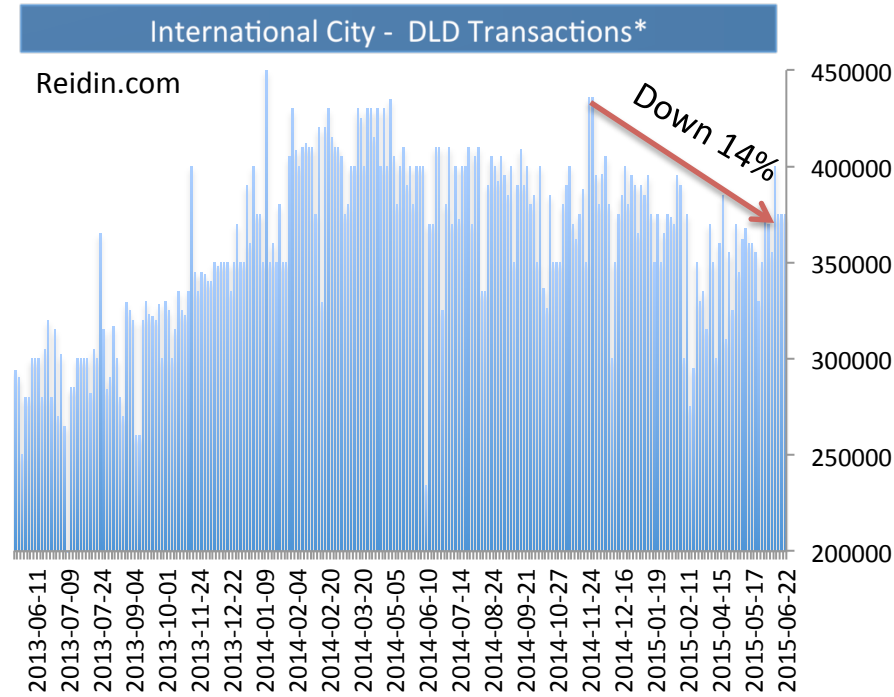
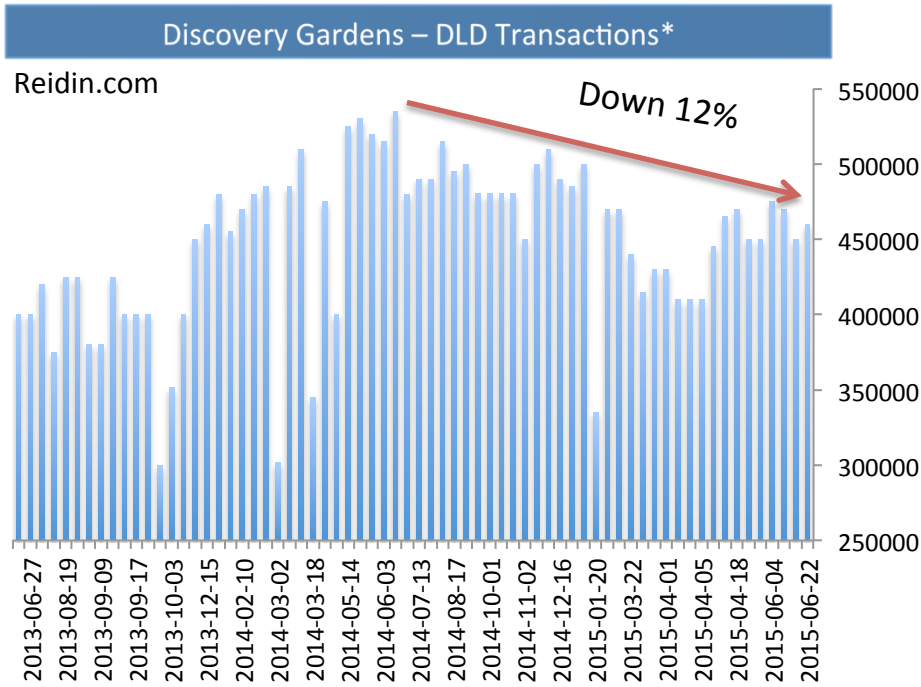
High-End Properties also Drop close to 20%



A similar analysis was conducted in two high-end communities Greens and JLT, which revealed a 17% price drop from its peak. Whilst price volatility has increased on the back of reduced transactions, the trend has clearly been on a downward trajectory.

*Similar types and sizes

Affordable Housing Falls the Least



When the affordable segment is scrutinized, the price decline has been the least, indicating price resistance on the downward end as investors and end users have both entered at lower price levels.

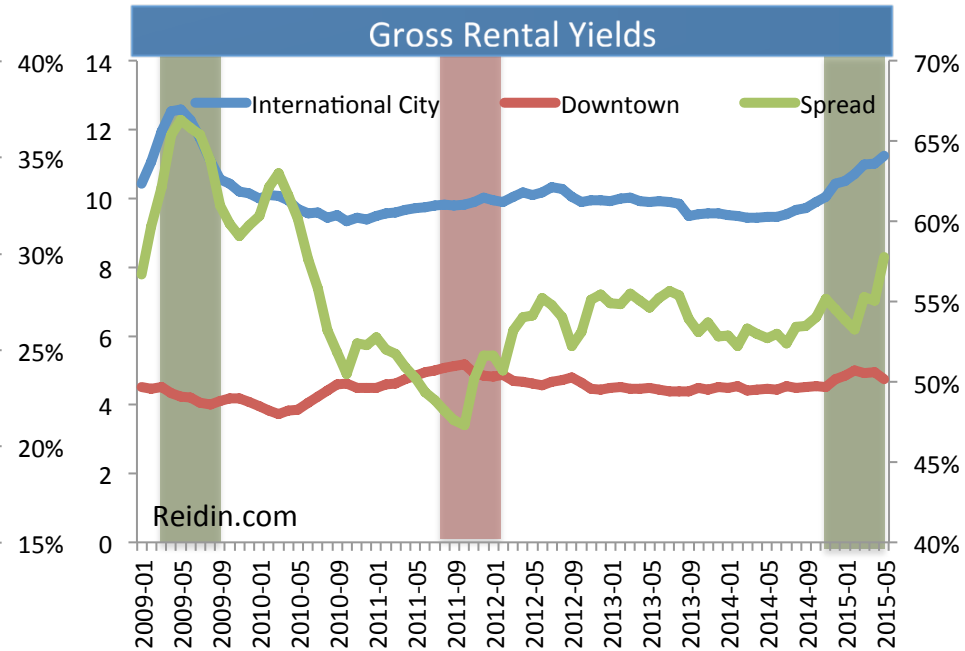
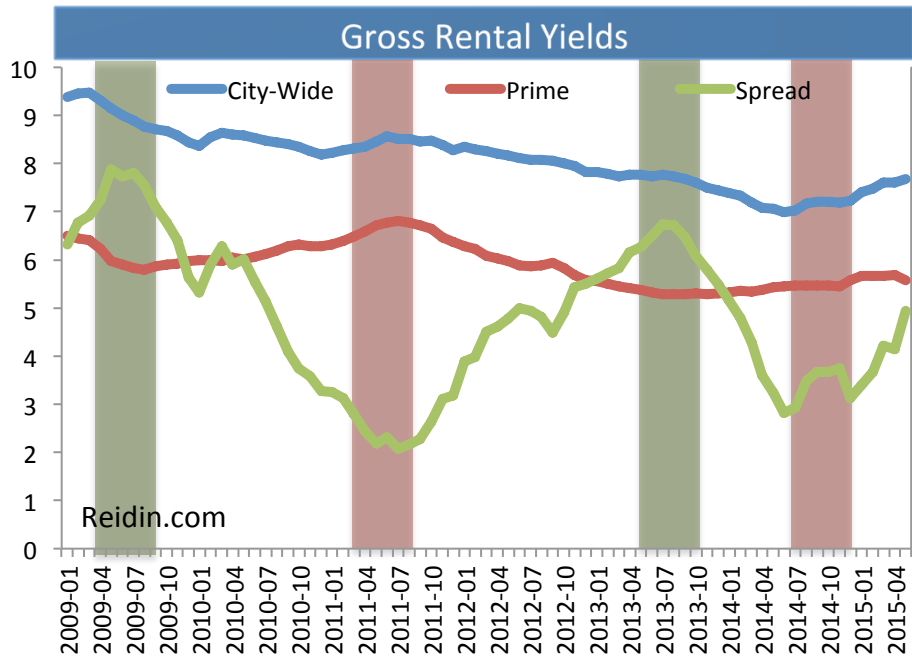
*Similar types and sizes

Yield Spreads as Signals?



“You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future.” — Steve Jobs

A look at Yields



Yield spreads have historically been used as an indicator looking at inflection points and signaling buy/sell mechanisms. In the first chart, the yield spread between the city wide average and the prime market spread signaled a trough in 2011. This was a buy signal for both city wide and prime properties, with the latter outperforming significantly. However, on a relative basis, the indicator signaled a sell in the second half of 2013, and since then prime properties have underperformed the city wide index.

In the second chart, when applied to two specific communities, there appears to be a sell signal in 2009 and a buy signal in 2011 (for downtown) between the two communities; more recently the indicator seems to be hovering towards a sell indicator again.

Conclusions

Dubai has had an average completion rate of 61% of expected supply, highlighting the lag that is expected in on-going developments

Real estate market had become top heavy, and at the lower end of the market there has been buying activity in select communities, to capitalize on price declines

Supply and Demand

A Dubai real estate market analysis reveals that price action comes after periods of imbalance in the supply and demand metrics.

A deficit in supply as seen in 2008 and possibly 2015 has led to price declines, whereas a surplus has correlated into an upward movement in the price trend as seen in 2013/14.

However, the fears of a huge amount of oversupply this time around maybe over exaggerated as the completion rate of projects has been 61% in the last 3 years. This lag could possibly lower the surplus pushing prices upwards

Yield Spreads as Signals?

Yields have been a key indicator in anticipating inflection points in the market. This inflection points help us gauge buy/sell signals in the market.

Gross yield spreads between city wide and prime communities indicated a relative buy to prime in 2011 and a sell in late 2013; giving credence to the axiom that these spreads need to be closely monitored in order to ascertain the direction of future price movements.

Peak to Now

A micro structure price analysis reveals that prime properties have had the greatest correction (26%), whereas the affordable segment had fallen the least (13%).

The different rates of price decreases can be correlated to the degree of mismatch of supply/demand in each individual strata. . This corresponds to the hypothesis that the real estate market had become top heavy.

Given the continued sluggish secondary market demand, transactional activity in each strata will be a good leading indicator for price inflection points.

Conclusion

The price action of Dubai's real estate market will be greatly influenced by the rate of completion of on-going projects. If the rate falls below 60% we opine that the lopsidedness will cause prices to trend upwards. However, if developers stay on course and deliver projects as per schedule, the variety of options for buyers and rents will force prices/rents to fall further.

This trend will be vary in each individual strata according to its individual supply/demand dynamics.



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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

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Concord Tower, No: 2304,
Dubai Media City,
PO Box 333929 Dubai,
United Arab Emirates
Tel. +971 4 433 13 98
Fax. +971 4 360 47 88
www.reidin.com
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