

STRICTLY CONFIDENTIAL



Size Matters

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Executive Summary

As Dubai continues to roll out developments fueling the expansion of the city, there has been pressure on developers to build affordable homes to support the middle-income groups (earners between 3k-10k AED). In the last year a flurry of new projects have been launched to cater to this segment.

As the markets have matured and slowed, developers have catered to affordability, more often by reducing the size of the apartments, rather than the per square foot rates both in developed as well as developing communities. There has been an increasing incidence of increasing balcony area spaces as well in some of these developments.

An analysis across both the villa and apartment segment, shows an up to 20% reduction in sizes between existing supply and new project launches. This trend was witnessed within as well as across communities, and is a trend that appears to be accelerating.

Dubai's price curve reveals an investor preference for smaller spaced units, as investors demand units that have a higher yield; in Manhattan, the upward sloping price curve per square foot reflects higher end user demand for larger livable spaces. As the market matures, a similar trend is expected to be witnessed in Dubai as well.

We opine that the reduction in living spaces partly explains the reason why end user demand has not been ignited in response to the recent flurry of "affordable launches". In the event that markets remain sluggish, we opine that there is considerable opportunity for developers to tap into this segment by offering lower per square foot rates with larger living spaces, thereby paving the way for the affordable housing segment to flourish.

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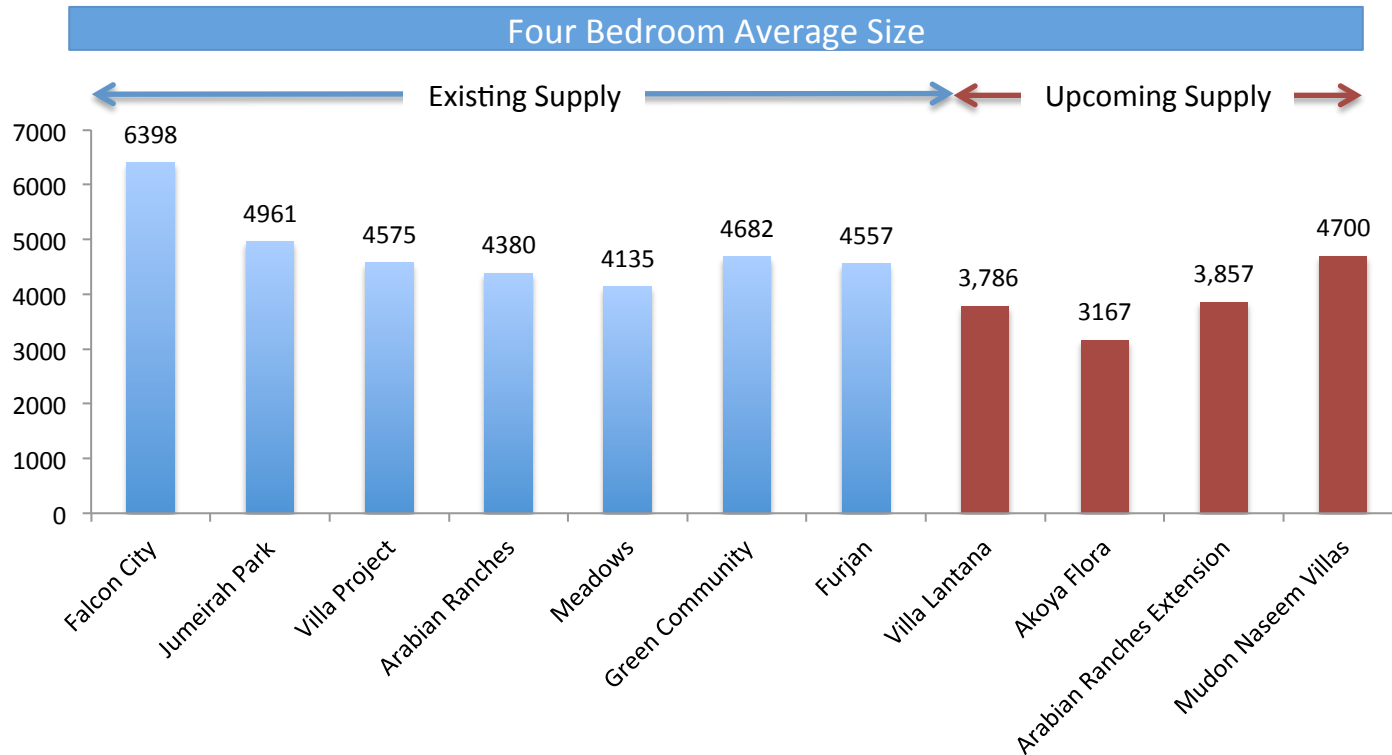
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The Villa Space



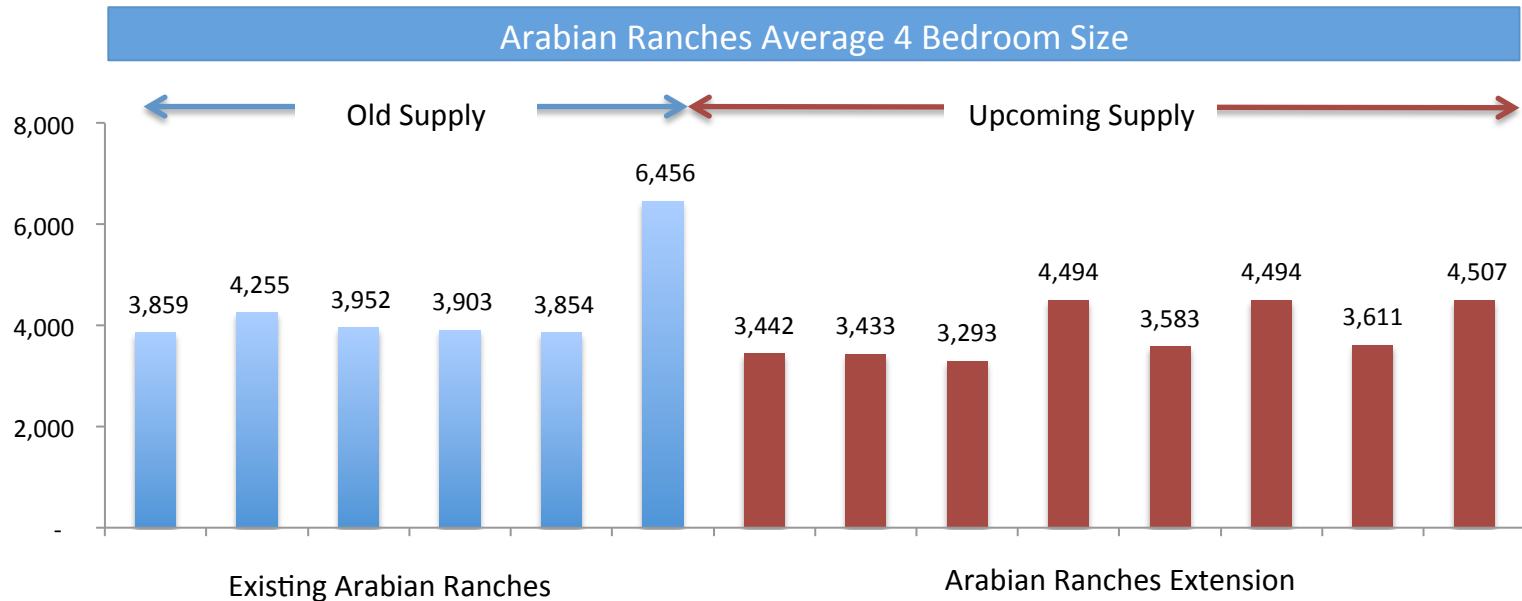
“Whatever story you want to tell, tell it at the right size” - Richard Linklater

Average Villas Reduce Sizes by 20%



A unit size analysis across the four bedroom villa segment reveals that existing developments are offering larger sizes compared to the newer launches. The reduction in size can be attributed to developers trying to sell stock in a highly competitive market, where an array of options exist.

Inter Community dynamics reveal similar dynamics..



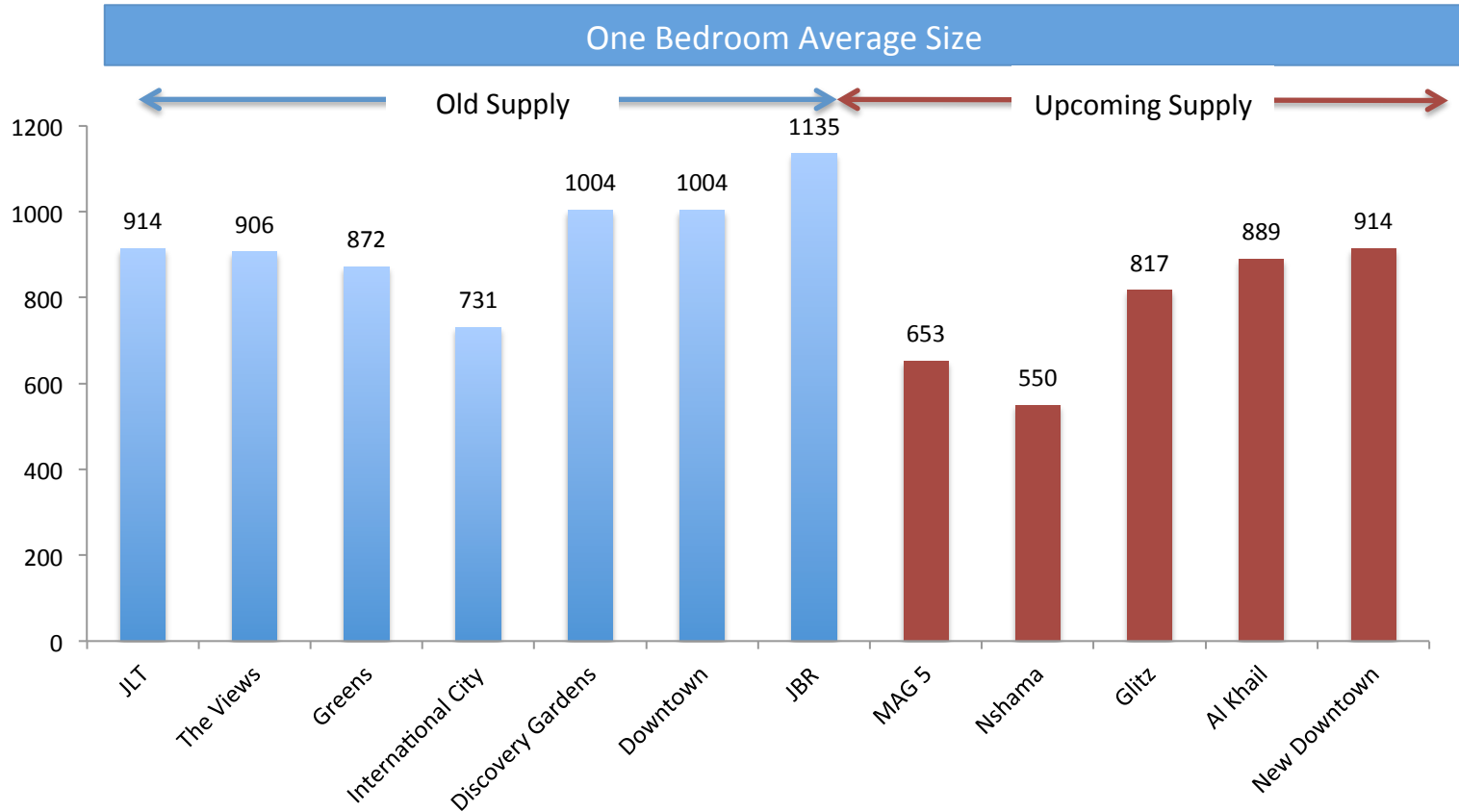
An intercommunity analysis of the existing Arabian Ranches units against the upcoming extension, reveals a 12% average reduction in size, which coincides with the macro shift in developer trends towards affordability. Even after the outlier community (Hattan) is excluded, there is an average reduction of 3% or 107 square feet.

The Apartment Space



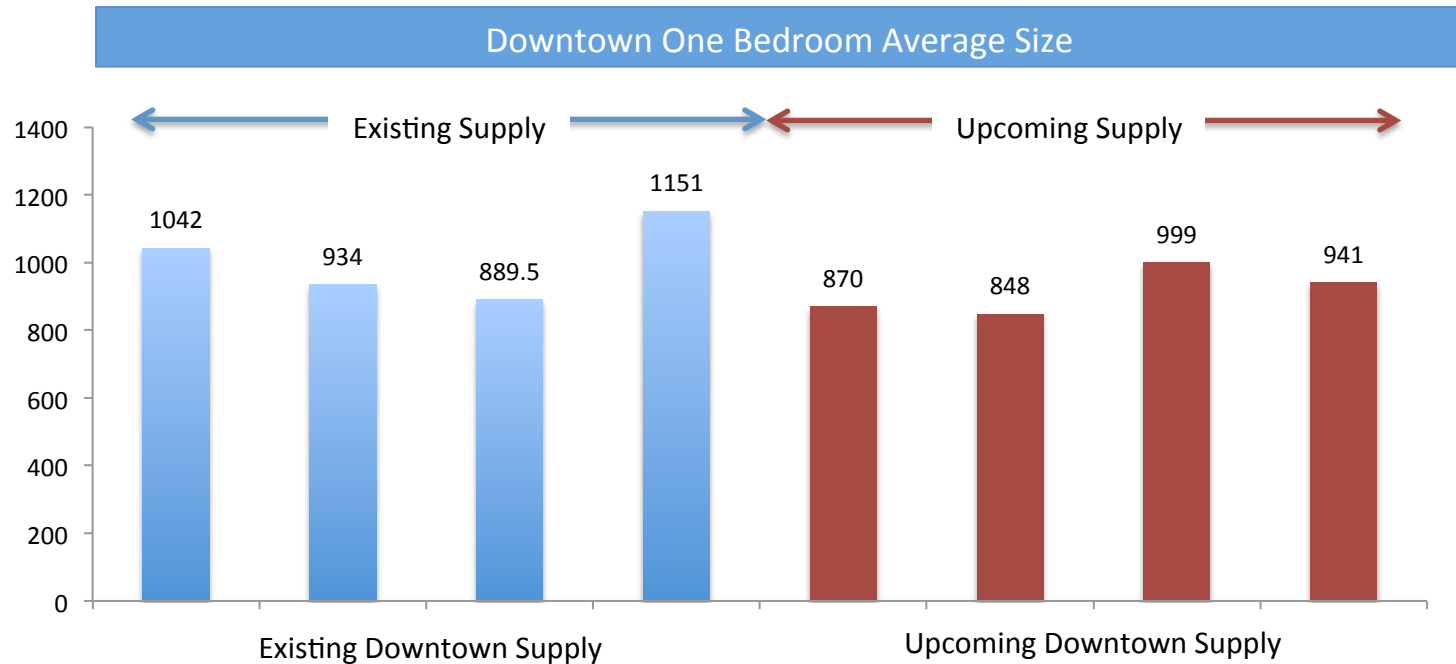
"Oh, you mean... Shrinkage ... Yes. Significant shrinkage .. So you feel you were shortchanged." - Seinfeld

One Bedroom Apartments Also Drop by 18%



The apartment segment exhibits a similar trend to that of villas, where the average size has reduced by 18% in monitored areas. As Dubai begins to gravitate towards the more price conscious consumer, similar size units launches are expected to proliferate.

Similar trends reside in intercommunity dynamics...



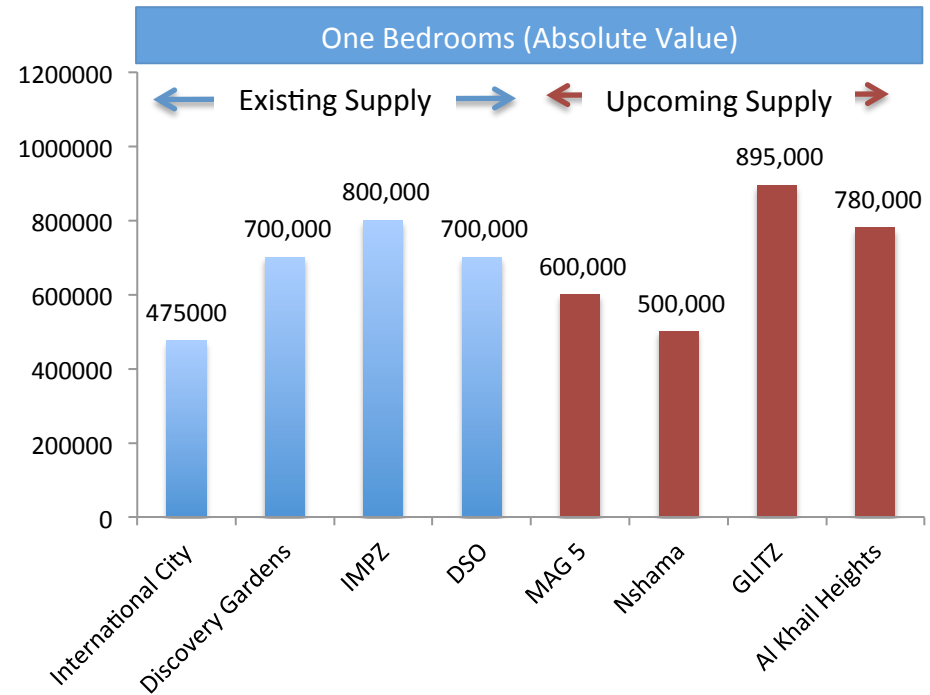
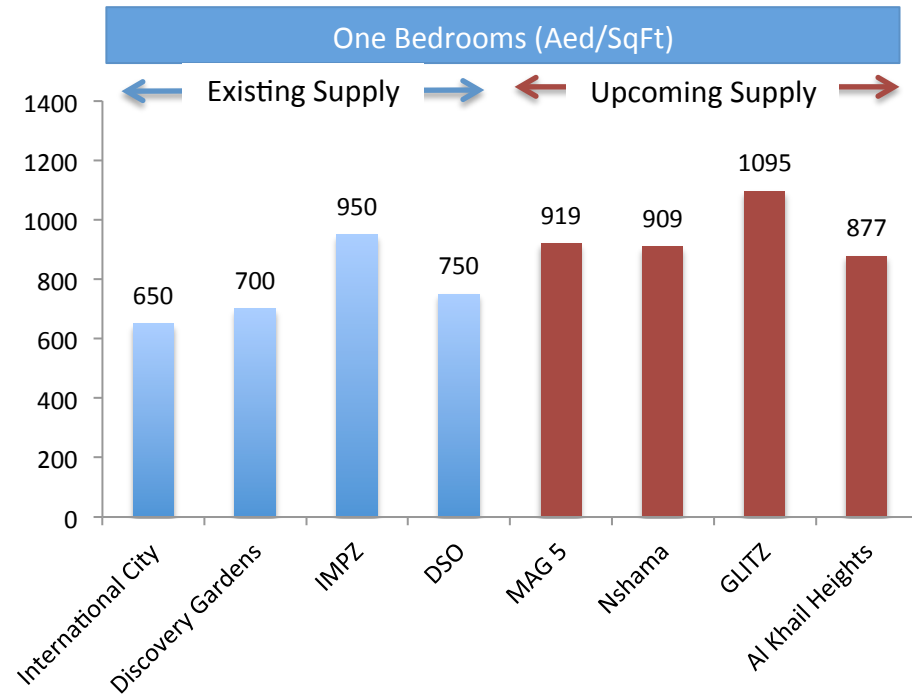
The Downtown average size of one bedrooms have decreased by 8% in recent launches, revealing the trend in reduction is common place within and across communities in freehold Dubai.

The Game of Affordability



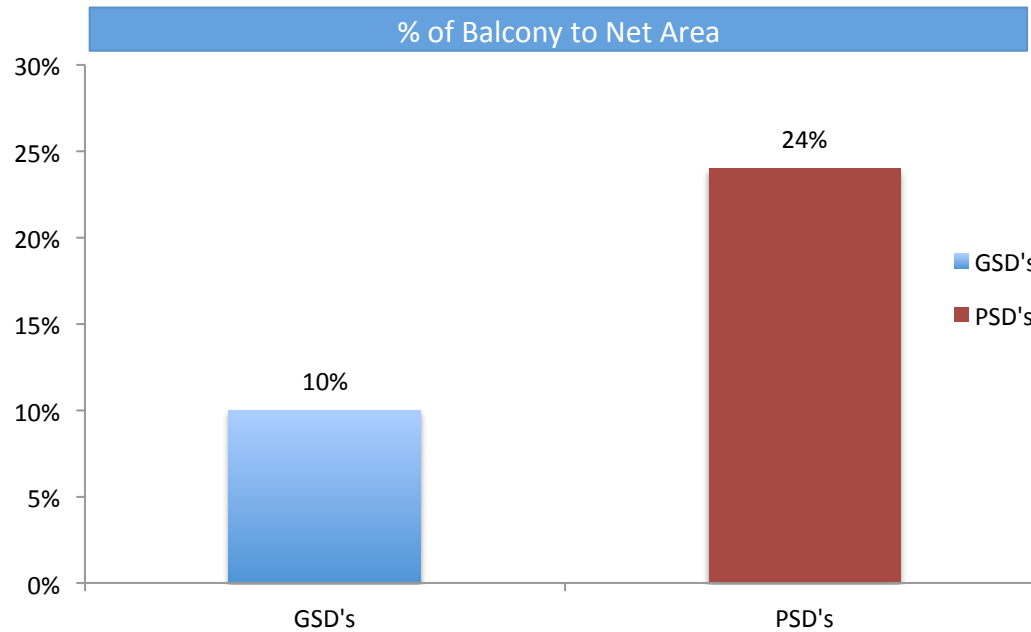
“What if everything is an illusion and nothing exists? In that case, I definitely overpaid for my carpet” -
Woody Allen

Developers Reduce Sizes to Maintain Margins



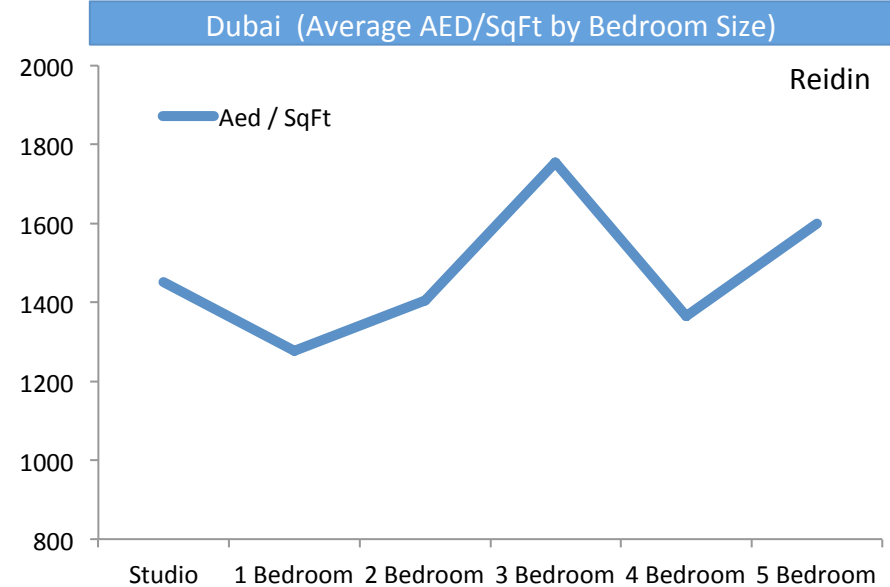
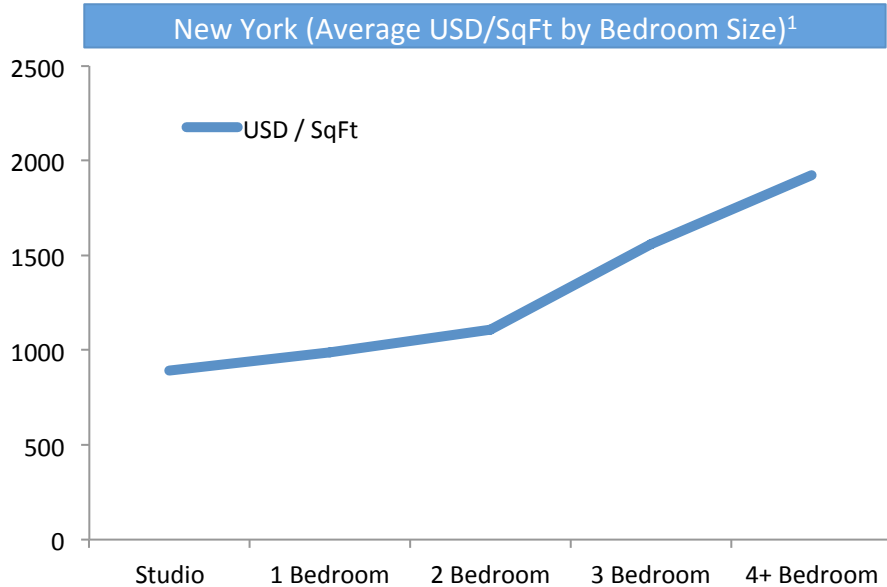
A comparison of one bedroom affordable units currently available in the market versus upcoming supply shows that on average the absolute value of a one bedroom are approximately at par; however the new projects have a 20% higher per square foot rate. Whilst developers have little control in the secondary market, their ability to reduce their absolute ticket prices at the primary level has been directly as a consequence of reducing the sizes of apartments; in the median case there has actually been an *increase* in the per square foot rates, suggesting that some of the older developments are actually more affordable than the newer launches.

How much livable space is there?



A sample size study of two bedroom floor plans in the apartment space reveals that Government Sponsored Developers (GSD's) have half the balcony space of the Private Sector Developers (PSD's). In the sample size studied, in a typical 2 bedroom PSD unit, balcony sizes accounted for nearly a fourth of the overall saleable area.

Price Behavior by size



When we compare Dubai to Manhattan, an interesting contrast comes to light. In Manhattan (a city where there is clearly a premium for space), the average per square foot prices *rises continuously* as the apartment sizes increase. This reflects strong underlying end user demand in a city that is short on space. In Dubai, by contrast, the price curve is disjointed, whereby studios trade at a premium even relative to the 2 bedroom and even the 4 bedroom per square foot rates, reflecting investor demand as yields are higher at the smaller end of the space spectrum.

We opine that as end user demand ratchets higher, the price curve will reflect the more normalized shape of Manhattan, especially as developers start offering such larger livable space options.

¹Source: www.millersamuel.com

Conclusions

A unit size analysis across the four bedroom villa segment reveals that existing developments are offering larger sizes compared to the newer launches.

The apartment segment exhibits a similar trend to that of villas, where the average size has reduced by 18% in monitored areas.

Villa Space

In order to adapt to the changing landscape of the real estate market, developers have shifted focus towards affordable living.

Rather than decreasing the square foot rate developers have reduced the size of units, in an attempt to reduce the price size

An analysis of the villa segment reveals up to a 20% decrease in the four bedroom segment between existing supply and new launches

The Game of Affordability

An analysis between one bedrooms in the affordable segments reveals that the absolute value of apartments on average are the same of current and upcoming supply.

However the new projects have a 20% higher per square foot rate; in the median case there has actually been an *increase* in the per square foot rates, suggesting that some of the older developments are actually more affordable than the newer launches.

Apartment Space

In the apartment space, similar dynamics abound, where the one bedroom unit has reduced by 18% in size.

The same trend is witnessed within communities as well, where in a typical studied community, the sizes of the one bedroom has decreased by 8% in recent launches..

As Dubai begins to gravitate towards the more price conscious consumer, similar size units launches are expected to proliferate.

Conclusions

There has been an overall decline in the price trend of new launches, where developers have reduced the ticket prices for the units being offered in the market

However, this has come typically by reducing the average sizes of the apartments, as well as increasing the balcony spaces, thereby increasing the overall sales area but in many cases, actually reducing the livable area.

Dubai's price curve does not reflect the demand for larger spaces as yet, suggesting that investor preference for smaller space still predominates.



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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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