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The Theory of the Leisure Class: A Look into Emirates Hills

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Executive Summary

- A look into the most prestigious community in Dubai, Emirates Hills, reveals that its plot prices have out-performed any other real estate product by a factor of nearly 3x since the inception of Freehold. These staggering returns that have accrued to investors and end-users are inline with other blue-ribbon communities around the world. For instance Beverley Hills has appreciated by 50%, whereas the the average US price index has remained flat lined over the last 10 years.
- A min-max analysis of Emirates Hills reveals that the gap has doubled in transacted villas over the last 5 years. This widening of the gap can be attributed towards the underlying properties that have been constructed in this community over the years. Moreover it illustrates the demand that has and continues to increase for “bespoke” villa communities with a gilded address code.
- A granular break-down of the community reveals that majority of the villas are distributed between Sector E and P, which accounts for nearly 1/3rd of the entire supply. Moreover, a price analysis of listings show that Sector R has the highest price per square foot rate followed by W and V. Whilst this breakdown may somehow shed some light on the relative “premium” of these sectors, the vastly differing sizes of the villas in each of these areas plays a far larger role in the listed and transacted prices.
- A transactional activity analysis of the community over the last 5 years reveals that cash transactions accounted for 80% of activity. However, in the last 18 months, there has been a spike in ‘other transactions’ (which include refinances), which have coincided with the crash of oil prices. Due to the liquidity crunch prevalent in the market, we opine that this trend will continue to grow as homeowners seek to monetize the substantial home equity built in their villas.
- The recent option of ultra-luxury villas, where you can build your own façade by Emaar has been in the form of Dubai Hills. A comparison between Dubai Hills and Emirates Hills plot prices, shows that he latter trades at roughly 1/3rd the price. An analysis of Emirates Hills during its development stages reveals that prices accelerated dramatically as surrounding infrastructure began to roll out. We opine that the same phenomena will transpire in Dubai Hills as surrounding infrastructure comes online. It will be likely be accelerated by demand from the upper strata that “missed the bus” on the price and development trajectory of Emirates Hills, and this ‘me-too’ phenomena. This explains the proliferation of high income communities such as al Barari and Pearl jumeirah which offer similar product.



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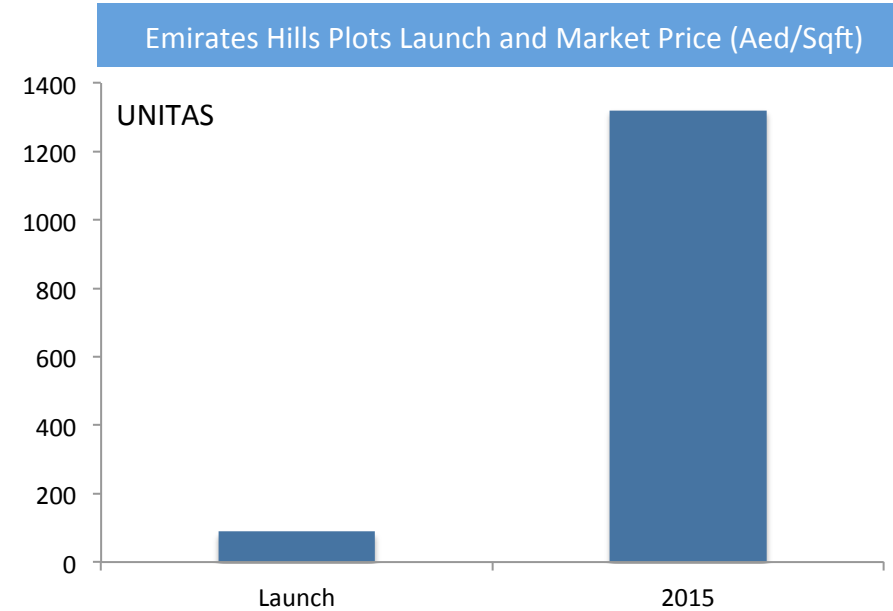
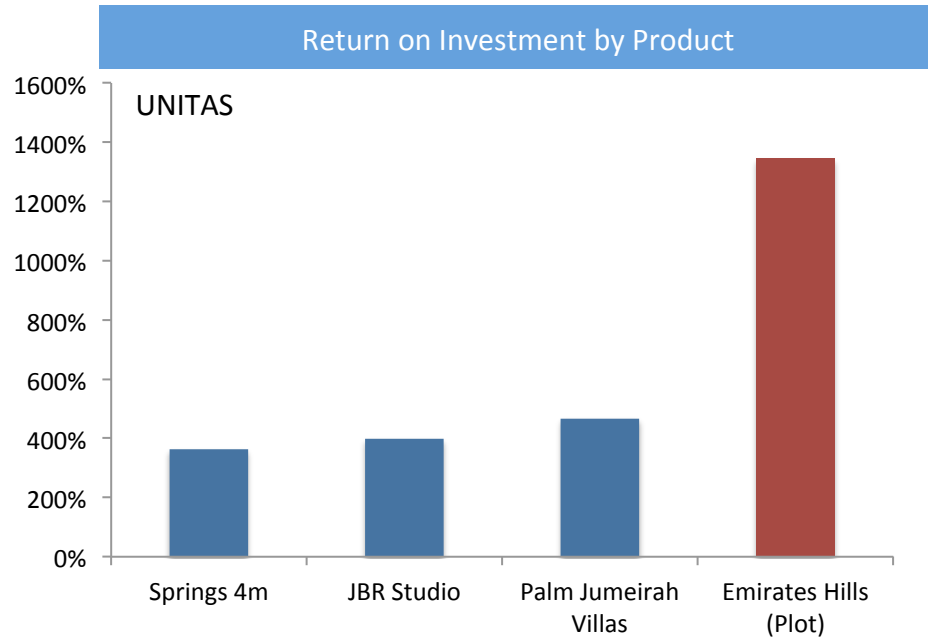
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A Macro look into Emirate Hills



"The bigger the risks, the better off you are. Otherwise you're just boring." – Billie Joe Armstrong

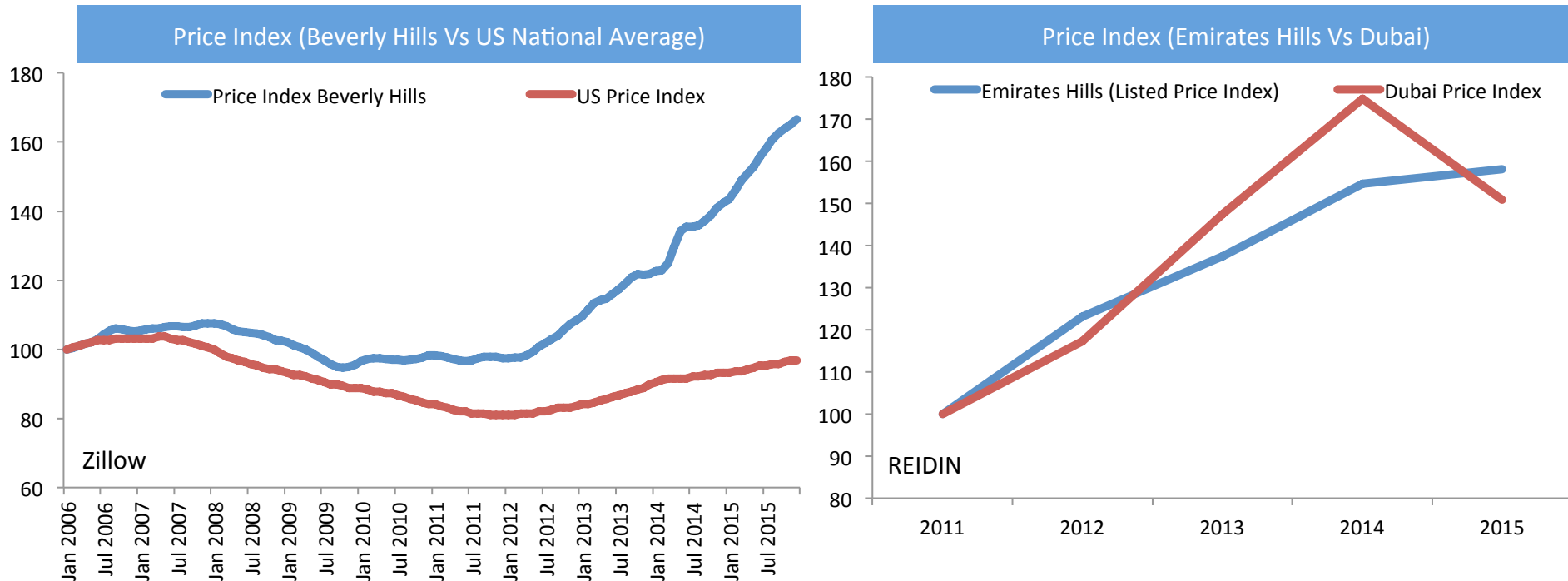
Emirates Hills Land has Appreciated More than 10 times since its Launch



A price analysis of launches in the first cycle, reveals that Emirates Hills plots out-performed any other real estate product by a factor of nearly 3x. Whilst this comparison is of ready units against land prices, it serves to highlight the staggering appreciation that has accrued to investors in this blue ribbon community, far outpacing realized returns throughout the rest of the city since the advent of freehold in 2002.

This appreciation at the trophy end of the market has been in sync with similar spikes witnessed in other parts of the world, where such premium gated communities have been launched at the upper strata of the market.

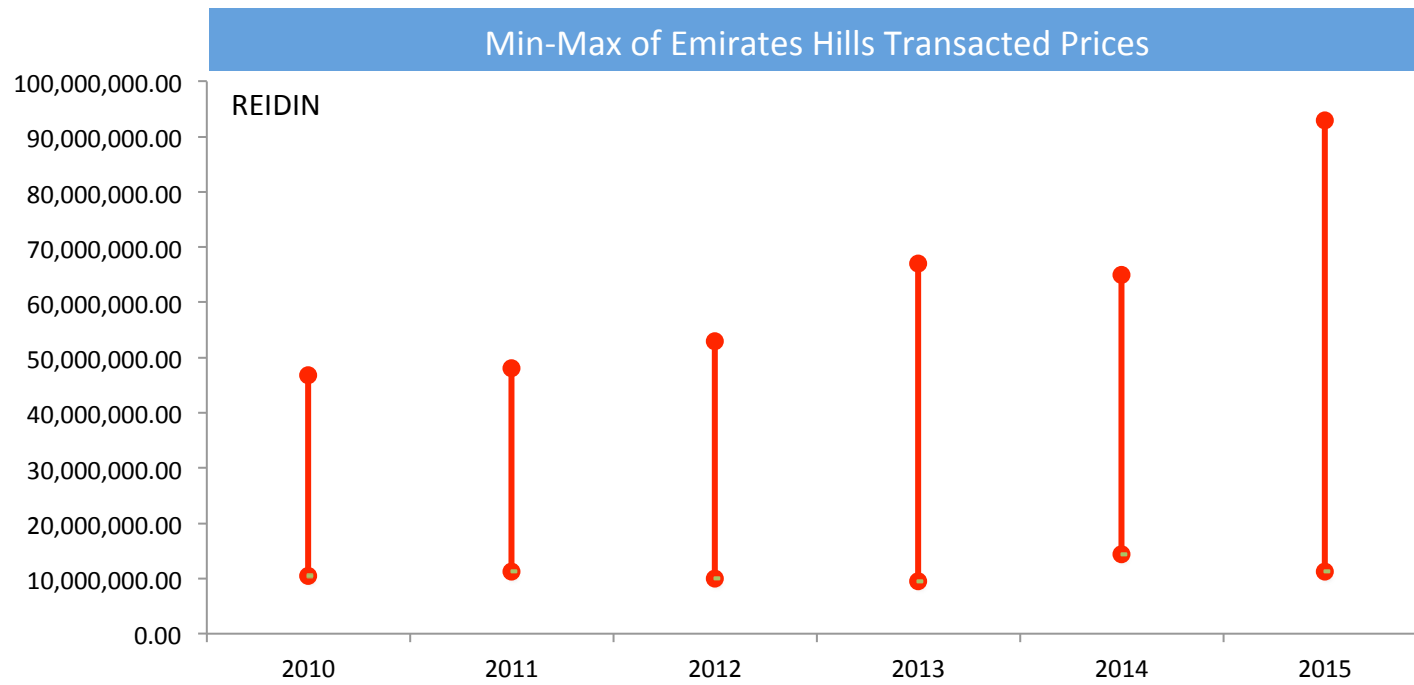
Beverly Hills Outperforms the Rest of the United States



The above chart depicts the growth rates of Beverly Hills against the US price index. Since 2006 the US market has remained flat, while Beverly Hills has appreciated by 50%. This highlights the outperformance of ultra luxury properties against the city wide performance. The price behavior in this instance is synonymous with that being witnessed in Emirates Hills.

More interestingly, a comparison of Emirates Hills against the city wide index since 2011 suggests only a marginal outperformance of the former, implying that as options have opened up for end users and investors for similar blue ribbon communities recently, the period of price outperformance may be coming to an end. We opine that Investors will increasingly shift their money flows towards upcoming blue ribbon communities, thus arbitraging away the difference that currently exists.

Min-Max Analysis of Transacted Prices in Emirates Hills



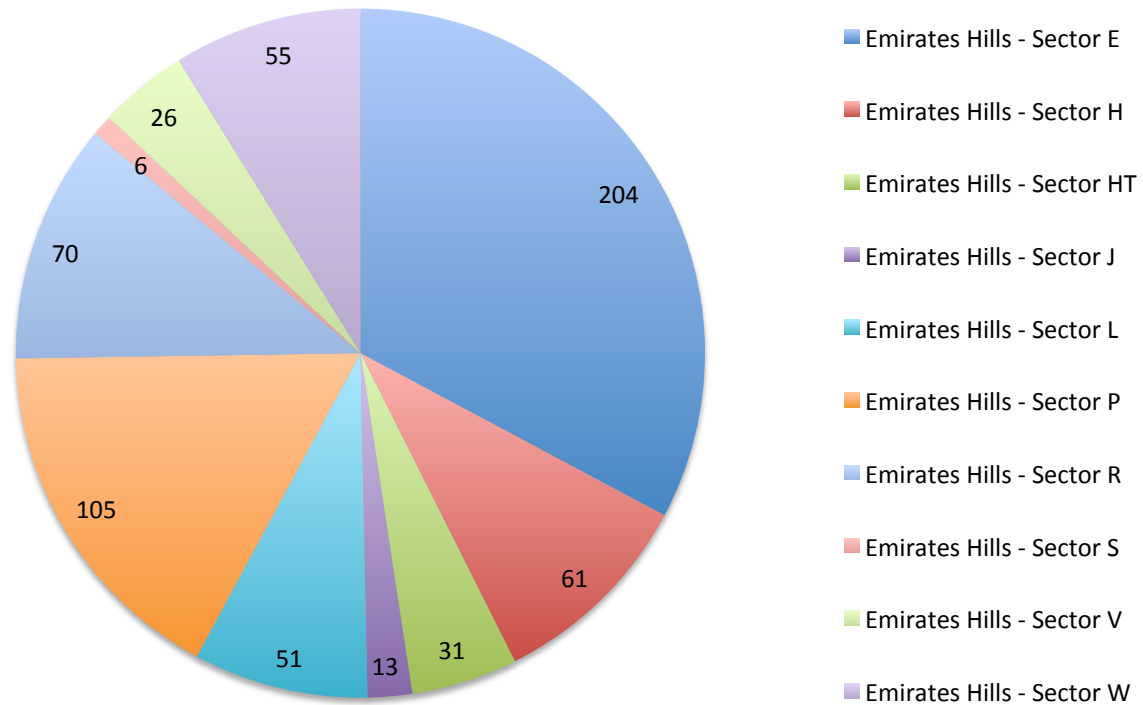
A min-max analysis of transacted prices reveals the the gap has doubled in the last 6 years. The widening of the gap is a function of the large differences in the underlying properties that have been constructed in this community over the years; it further serves to illustrate the demand that has and continues to increase for “bespoke” villa communities with a gilded address code. Such variations are the norm in communities that develop organically, as opposed to being constructed by a single master developer.

A Granular Look Inside



“The quasi-peaceable gentleman of leisure, then, not only consumes of the staff of life beyond the minimum required for subsistence and physical efficiency, but his consumption also undergoes a specialization as regards the quality of the goods consumed” – Thorstein Veblen

Break-Down of Emirates Hills Supply Structure



Emirates Hills is bifurcated into 10 sectors, where sector E and P account for approximately one third of supply. The 622 villas sizes vary from 10,000 to 45,000 square feet. The community is spread across lakes interspersed with a golf course, and values of differing villas are based on location within the community, although transaction values for the entire sector remains at a significant premium to the rest of the city because of the embedded premium that has been built into the address.

Listed Prices of Villas by Sector



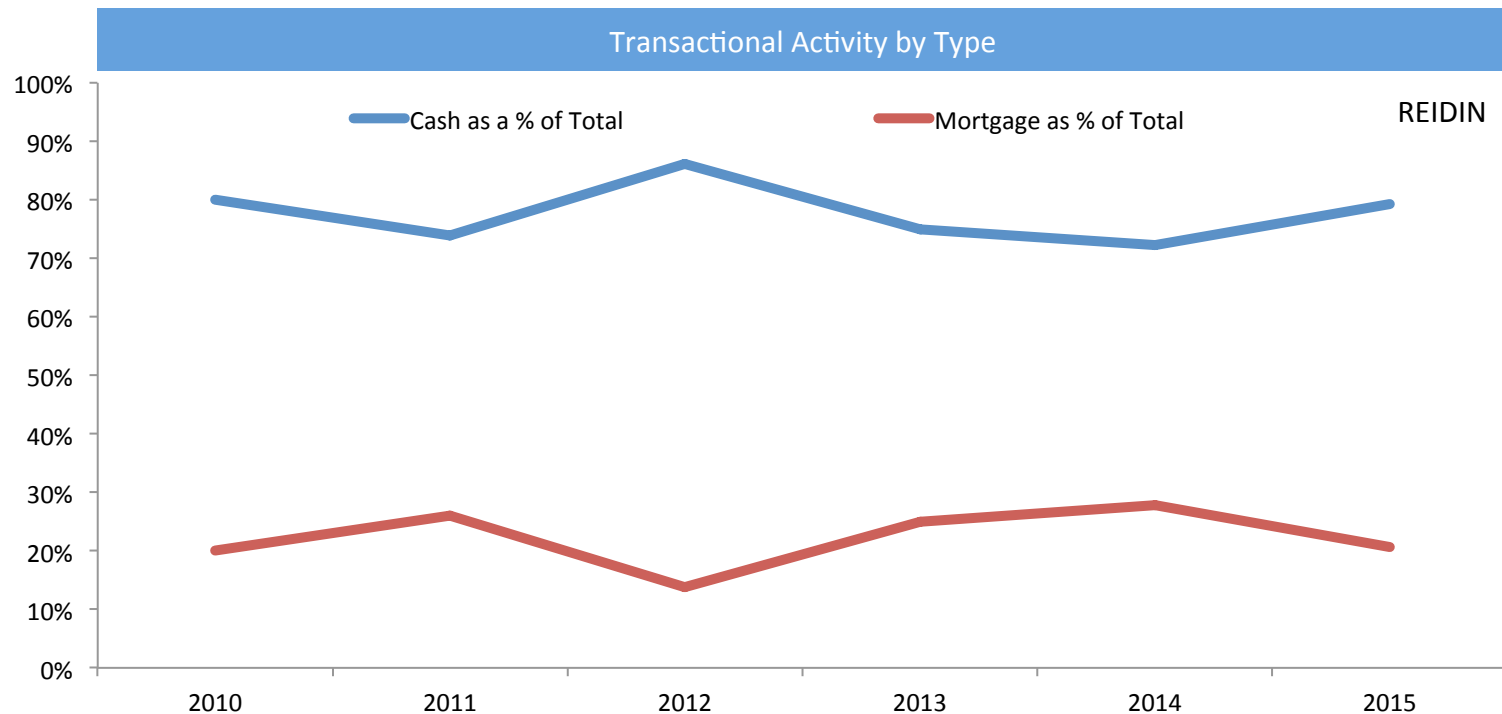
A granular analysis by sector of listed prices reveals that Sector R has the highest price per square foot rate followed by W and V. Whilst this breakdown may somehow shed some light on the relative “premium” of these sectors, the vastly differing sizes of the villas in each of these areas plays a far larger role in the listed and transacted prices. In point of fact, whilst there is a relative premium for golf and lake frontage villas, individual nuances of each villa seem to be the predominant weightage in determining the overall value of the price.

Transactional Analysis



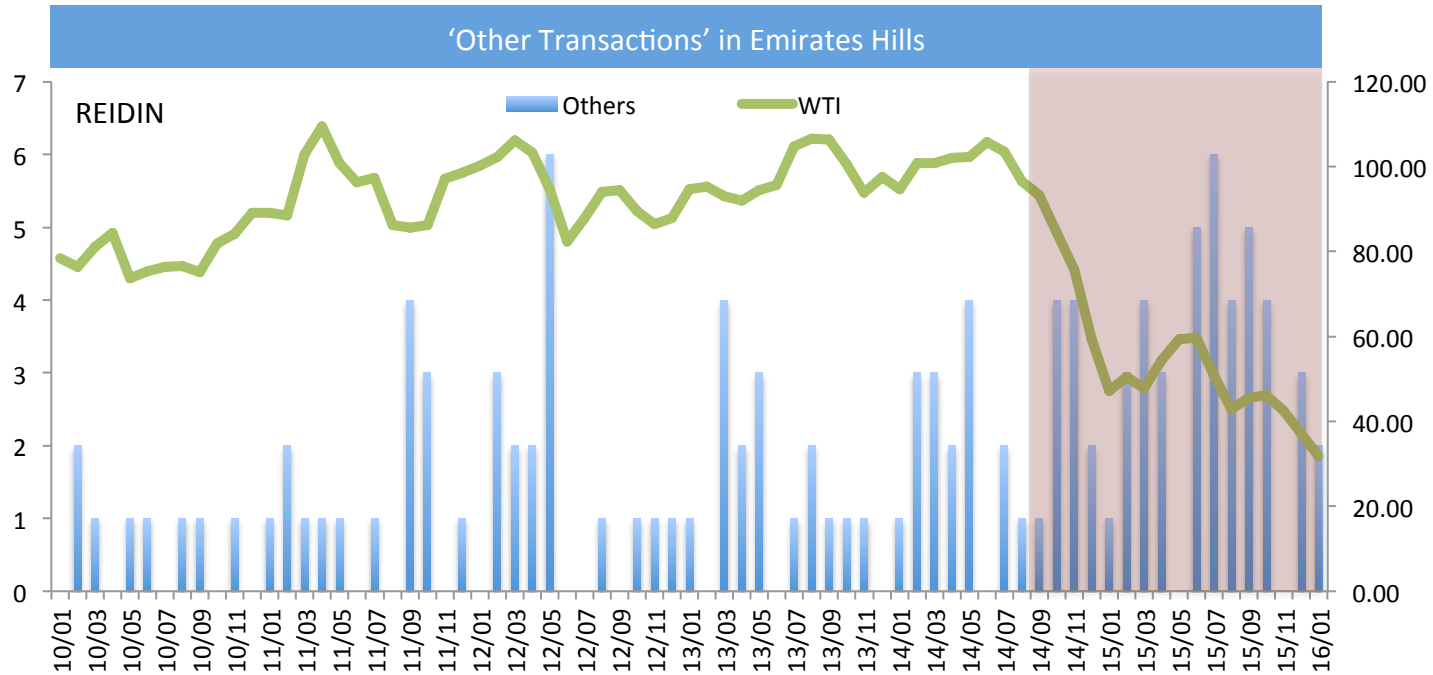
“Life is made up of a series of judgments on insufficient data, and if we waited to run down all our doubts, it would flow past us” - Learned Hand

Transactional Break-Down of Emirates Hills



The above charts depicts a granular transactional analysis of the Emirate Hills area, illustrating that the bulk of the transactions (upwards of 80%) have been on a cash basis. However, we opine that this trend has already started to shift, with the surge in refinancing's, as illustrated in the next slide, a trend that will likely continue, as end users seek to monetize the substantial home equity built in.

Spur in Refinances and 'Other types' of Transactions as prices decline



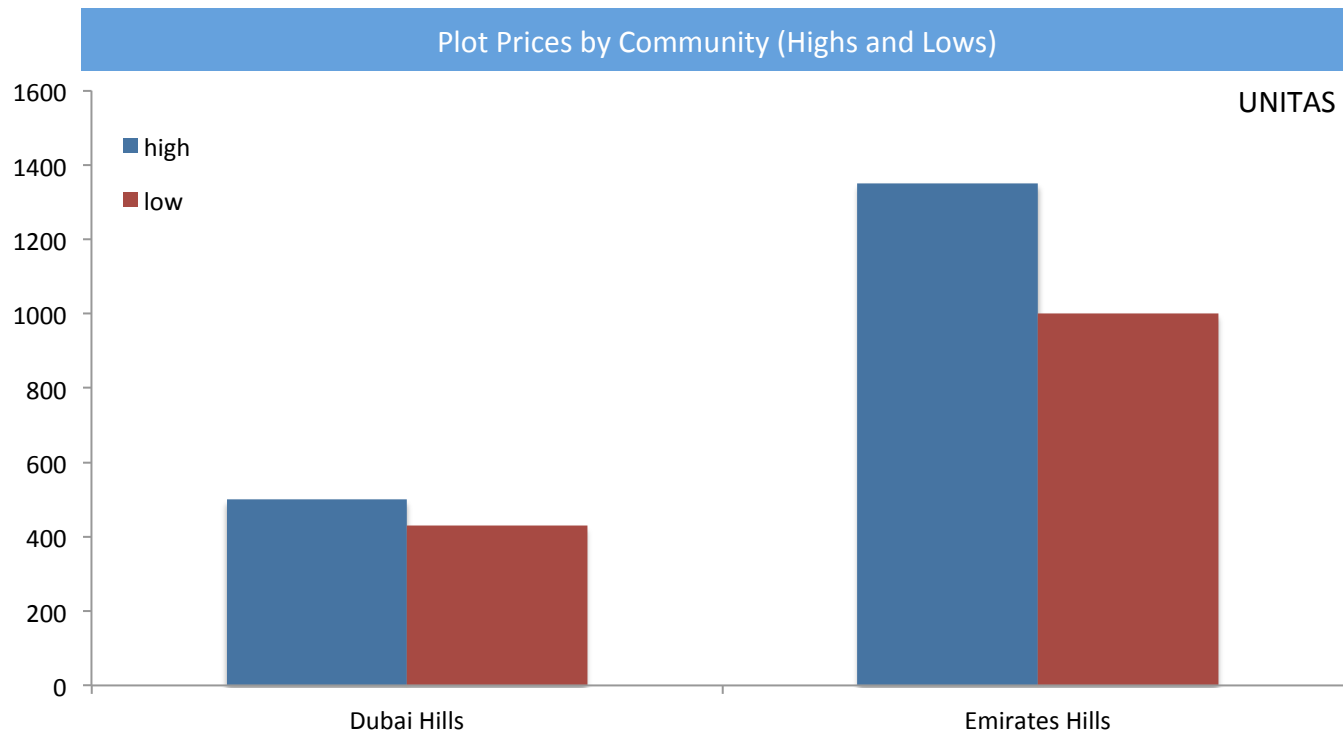
The crash of oil prices over the last 18 months has led to a liquidity crunch in the region, which has coincided with a spike in 'other' types of transactions, the predominant one being attributed to 'refinancing's'. In order to raise liquidity the fall in oil prices in Dubai therefore appears to be a reasonable proxy for liquidity conditions, and the surge in refinancing reflect the market response to monetize the "home equity" component that has become embedded in this community.

Emirates Hills and Dubai Hills



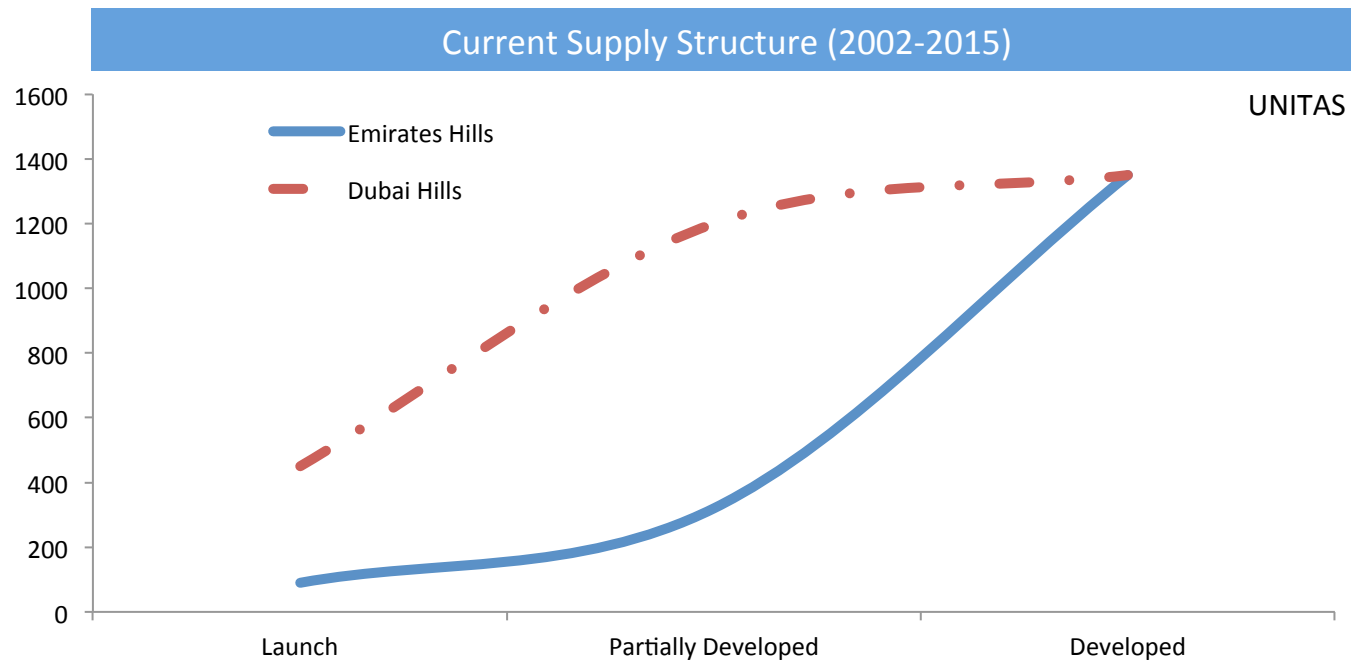
“Look back over the past, with its changing empires that rose and fell, and you can foresee the future, too”-
Marcus Aurelius

A comparison of Plot Prices of Dubai Hills and Emirates Hills



A min-max analysis of plots in both communities reveals that Dubai Hills plots trade close to 1/3rd the prices of Emirates Hills. This reflects the lack of development of the former, and as it develops, we opine that there will be a narrowing of the price gap between the two communities.

Dubai Hills Will Mirror the Price Action of Emirates Hills?



The development of a community influences price action. The further the community is along its infrastructure roll out the higher the prices will escalate. This trend can be witnessed in the development of Emirates Hills. We opine as Dubai Hills begins to roll-out its ancillary infrastructure, prices will begin to trend upwards, mirroring the trajectory of Emirates Hills. This will likely be accelerated by demand from the upper strata that “missed the bus” on the price and development trajectory of Emirates Hills, and this ‘me-too’ phenomena partly explains the rise of other blue ribbon upper tier communities such as Jumeirah Pearl, where increasingly bespoke options are being made available for the end user in terms of constructing their own villa.

Dubai Hills Estate Following Same Trajectory as Emirates Living

Emirates Living				Dubai Hills Estates			
Community	Number of Units	Prices Aed/ Sqft	Type	Community	Number of Units	Prices Aed/ Sqft	Type
Emirates Hills	622	2,500	Mansions	Dubai Hills	520	1,700	Mansions
Meadows	2,162	1,580	Villas	Sidra	-	1,100	Villas
Springs	4,730	1,167	Townhouses	Maple	610	1,000	Townhouses
Greens	3,245	1,322	Low-Rise	Park Heights	700	1,100	Low-Rise
Views	3,340	1,600	High-Rise				

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The roll out of developments in Dubai Hills Estates is mimicking that of Emirates living. Both communities share a similar structure of the master plan with the type of units.

However, In each instance the launch price of a Dubai Hills Estate projects is lower than the current prevailing prices of its counterpart in Emirates Living, making the former an attractive buy for investors and end-users.

Conclusions

Emirates Hills plot prices have out-performed any other real estate product by a factor of nearly 3x since the inception of Freehold

The bulk of the transactions (upwards of 80%) have been on a cash basis in Emirates Hills

A Macro Look into Emirates Hills

Since the launch of Emirates Hills plots prices have increased more than 10 fold, out performing any other real-estate asset in Dubai.

Similar blue-ribbon communities, such as Beverley Hills, have had superior growth rates compared to the US average price Index by 50% in the last 10 years.

A min-max analysis of transacted villa prices in Emirates Hills reveals the the gap has doubled in the last 6 years. The widening of the gap is a function of the large differences in the underlying properties that have been constructed in this community over the years

Transactional Analysis

4/5th of the overall transactional activity can be attributed towards cash buyers over the last 5 years

However, as the market faces a liquidity crisis a surge in 'other transactions' have transpired. Refinances account for a certain portion of these transactions.

We opine as liquidity in the market has tightened, home-owners have refinanced their homes to monetize the cash component of their villa.

A Granular Look Inside

Emirates Hills consists of 622 villas, spread over 10 sectors. Sector E and P, account for nearly 1/3rd of the entire supply

A granular analysis by sector of listed prices reveals that Sector R has the highest price per square foot rate followed by W and V.

Whilst there is a relative premium for golf and lake frontage villas, individual nuances of each villa seem to be the predominant weightage in determining the overall value of the price.

Emirates Hills and Dubai Hills

A comparison between Dubai Hills and Emirates Hills plot prices reveals the latter trades at nearly 1/3rd the price to the former.

We opine as the surrounding infrastructure of Dubai Hills begin to come online, plot prices will begin to accelerate, mimicking the trajectory of Emirates Hills.

This price acceleration will be further exuberated by the upper strata that "missed the bus" on the price and development trajectory of Emirates Hills, and this 'me-too' phenomena



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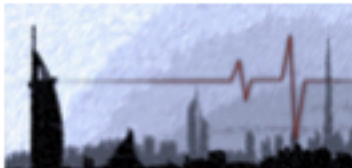
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KILLING THEM SOFTLY



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THE METRO EFFECT



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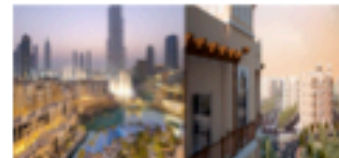
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BUY LAND WHERE
THE CITY ENDS



A CLOSER LOOK INTO
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2013



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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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