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Dubai: This time it's Different!

REIDIN Real Estate Information

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Executive Summary

- As the fears of a redux of the 2008 crash permeate through the ecosystem, a closer examination of the fundamentals at play suggests that ‘this time is different’. A macro look into economy reveals that Dubai experienced a +4.1% growth in 2015, unlike during the WFC (World Financial Crisis) where it incurred a negative growth of -4.3%.

- In 2008/09 company formations remained stagnant in the DED jurisdiction, whereas in 2014/15 it grew by 7%. Other indicators such as the ‘housing starts’ and budget spends attests to the efficacy of the expansive fiscal policy that Dubai has currently adopted. In contrast, Dubai in 2008, it was forced to cut back on spending leading to flurry of stalled and cancelled projects.

- A peak to trough analysis of the Dubai Financial Markets reveals that in the 2008 crash the index fell by 77%, compared to this time where the decline was nearly half. The lower volatility in the markets suggests that investor confidence and future growth remains positive, relative to the outlook in 2008.

- Similarly this time around the real estate markets have been relatively more resistant to the exogenous and endogenous factors at play (i.e. low oil prices and the strong dollar). During the WFC city-wide prices fell by 31% in the first 22 months. However in the current slump, prices have fallen by nearly 13% in the same time frame**.** This difference can signify the maturity of the market and investor base, as Dubai continues to diversify its economy.

- Within the rental market a similar dynamic has transpired. Using studios’ as a proxy, an analysis across various communities from the RERA Rental Index reveals that the decline has been marginal compared to the 2008 crisis. Rents had fallen in the range of 40-50% over two years from the peak in 2008, where as now it is still within single digit declines. This reiterates the levels of irrational exuberance that were prevalent during the two bull rallies, which led to different troughs in each scenario.

- As Dubai continues to push foreword with a continuation of project launches and infrastructural developments, it seem as if the market is ripe for a rebound. Unlike crashes, bull rallies transpire over longer period of time with a slower rate of incline. We opine if Dubai continues to expand with this momentum, a base effect (which we believe is underway) will soon precede a price recovery.

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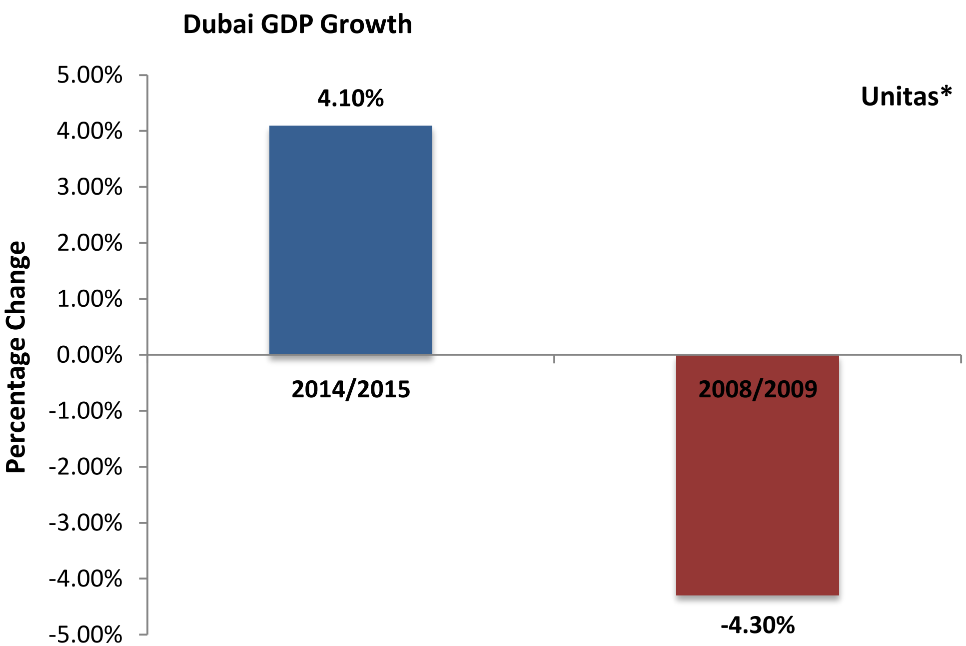
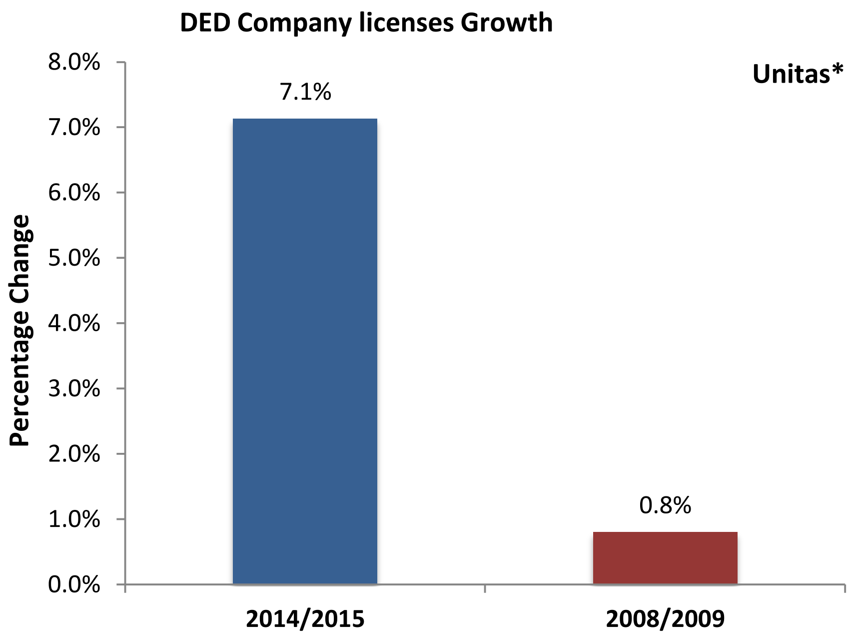
A Macro Look into Then and Now

“it is better to be roughly right than precisely wrong” – John Maynard Keynes

Macro Factors Indicative Strong Growth this time Around …

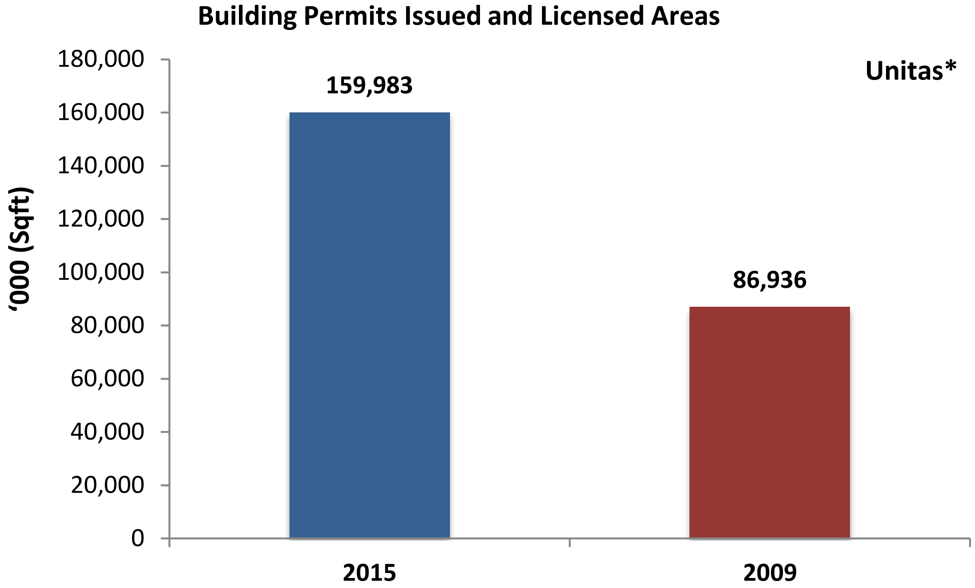


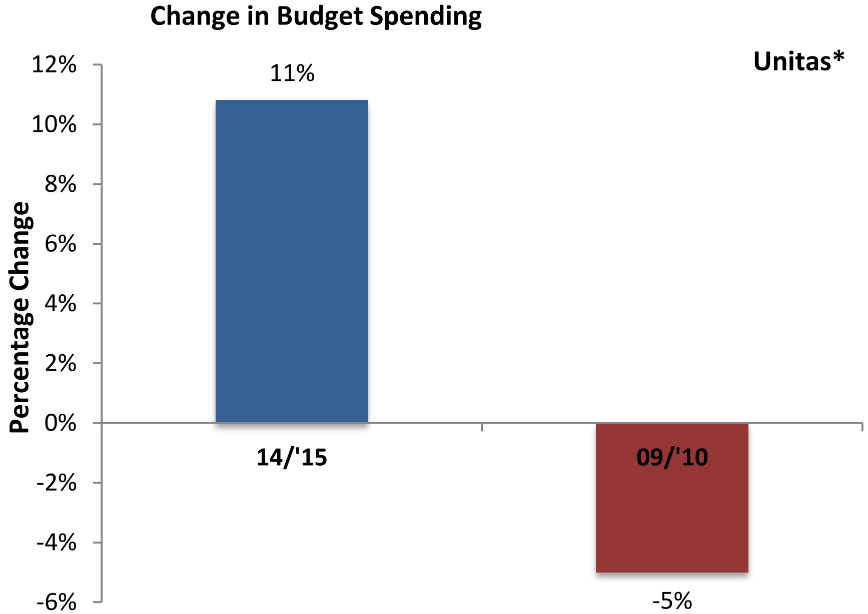


The above graphs shed light on the difference between the health of the economy during the 2008 and 2014 crash. During the WFC, GDP growth fell by 4.3% which coincided with a stagnation of company formation in the DED jurisdiction. However, in the recent cycle, GDP growth has continued with a strong increase of 4.1%, along with an increase of company formation by 7.1%. These macro trends indicate that the health of the economy remains positive.

***Data has been collected from the Dubai Statistics Centre**

Budget Spending and Housing Starts Push Foreword





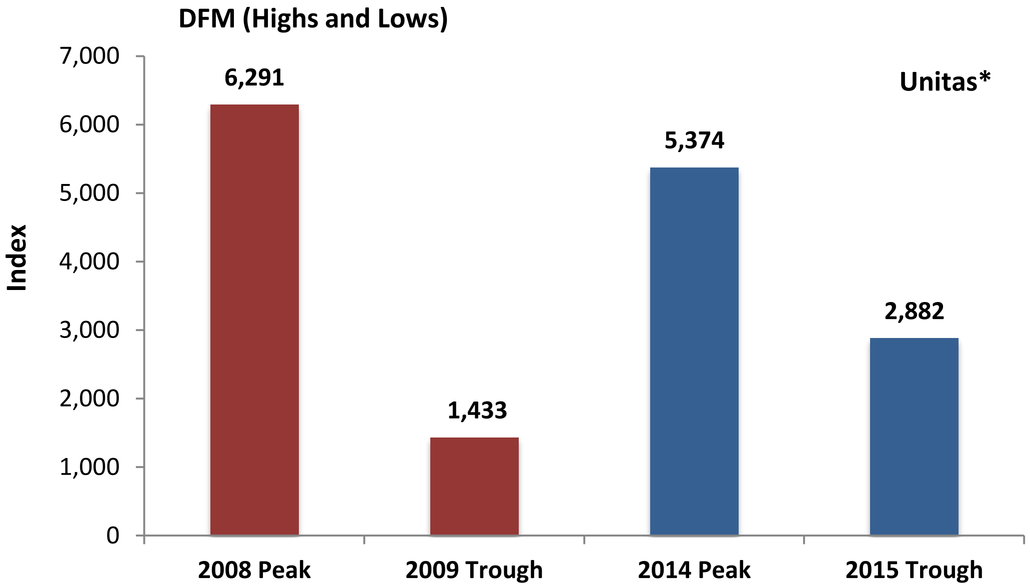
Unlike, any other city in the region, Dubai increased its budget spending by 11% in 2015. This is inline with its expansive fiscal policy, contrary to what transpired in 2008, where budgetary spending was curtailed by 5%. This was possible through the further diversification of the economy into other sectors such as tourism, retail and manufacturing. This increase in budget has led to further developments which can be witnessed in the number of building permits issued. The latter revels that square footage of construction that was approved in 2015 was roughly double that of 2009 levels.

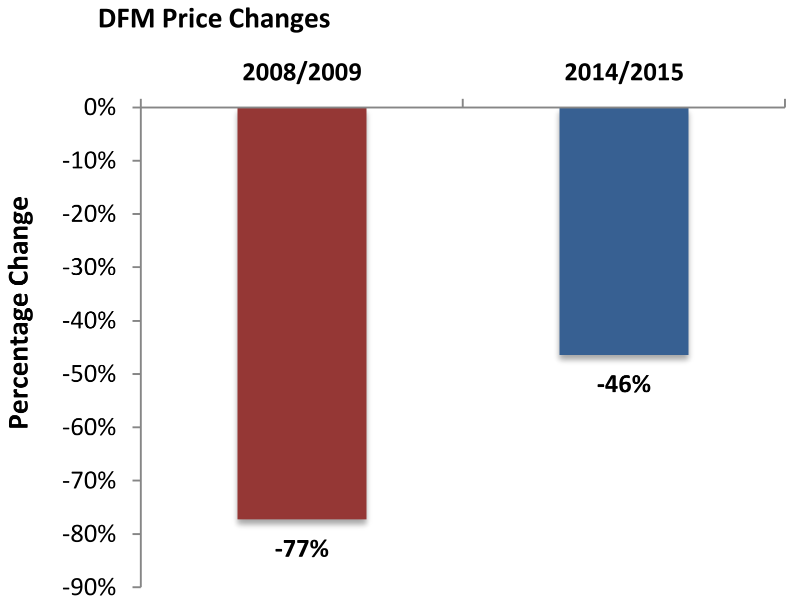
***Data has been collected from the Dubai Statistics Centre**

A look into the Equity Market

“The stock market is a device for transferring money from the impatient to the patient” – Warren Buffet

A Look into the Peaks and Toughs of the Dubai Financial Markets

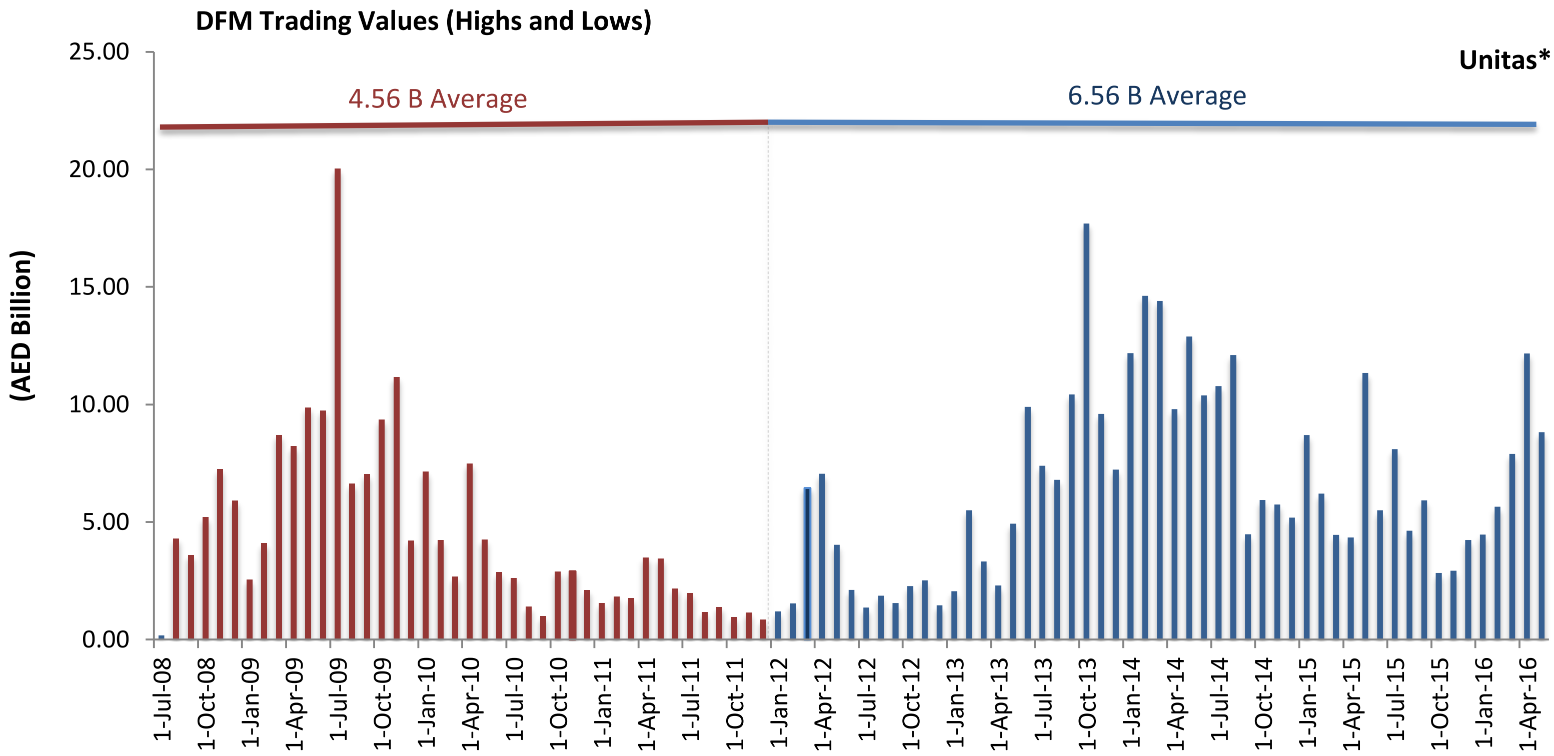




A peak to trough analysis of the equity market, reveals that in the first crisis the DFM index fell by 77%. In contrast, the recent crash driven by the fall in oil prices, the index declined by 46%. The difference can attest to the lower volatility in the market, as investor remain positive in the outlook of the future.

***Data has been collected from the Dubai Statistics Centre**

A Closer Look into Equity Markets Trading Values

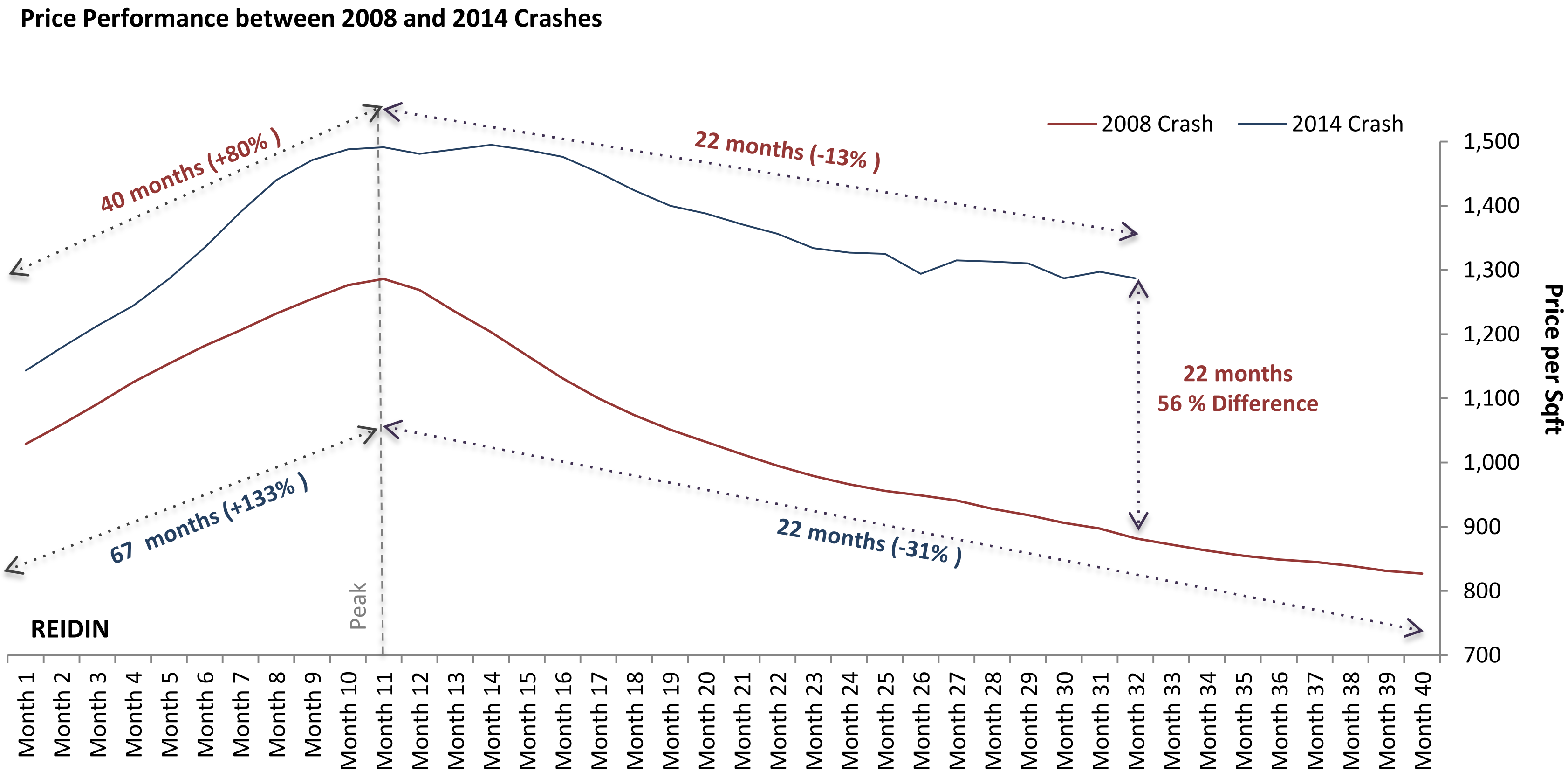


The above graph shows the trading volume during both the cycles. In the first cycle volumes dipped by 59% from 2009 to 2010, whereas in the second cycle from 2014 to 2015 it fell by a more modest 42%. What is of relevance is that the average volumes have been substantially higher in this cycle as compared to 2008-10 period.

What Happened in the Real Estate Market Crashes?

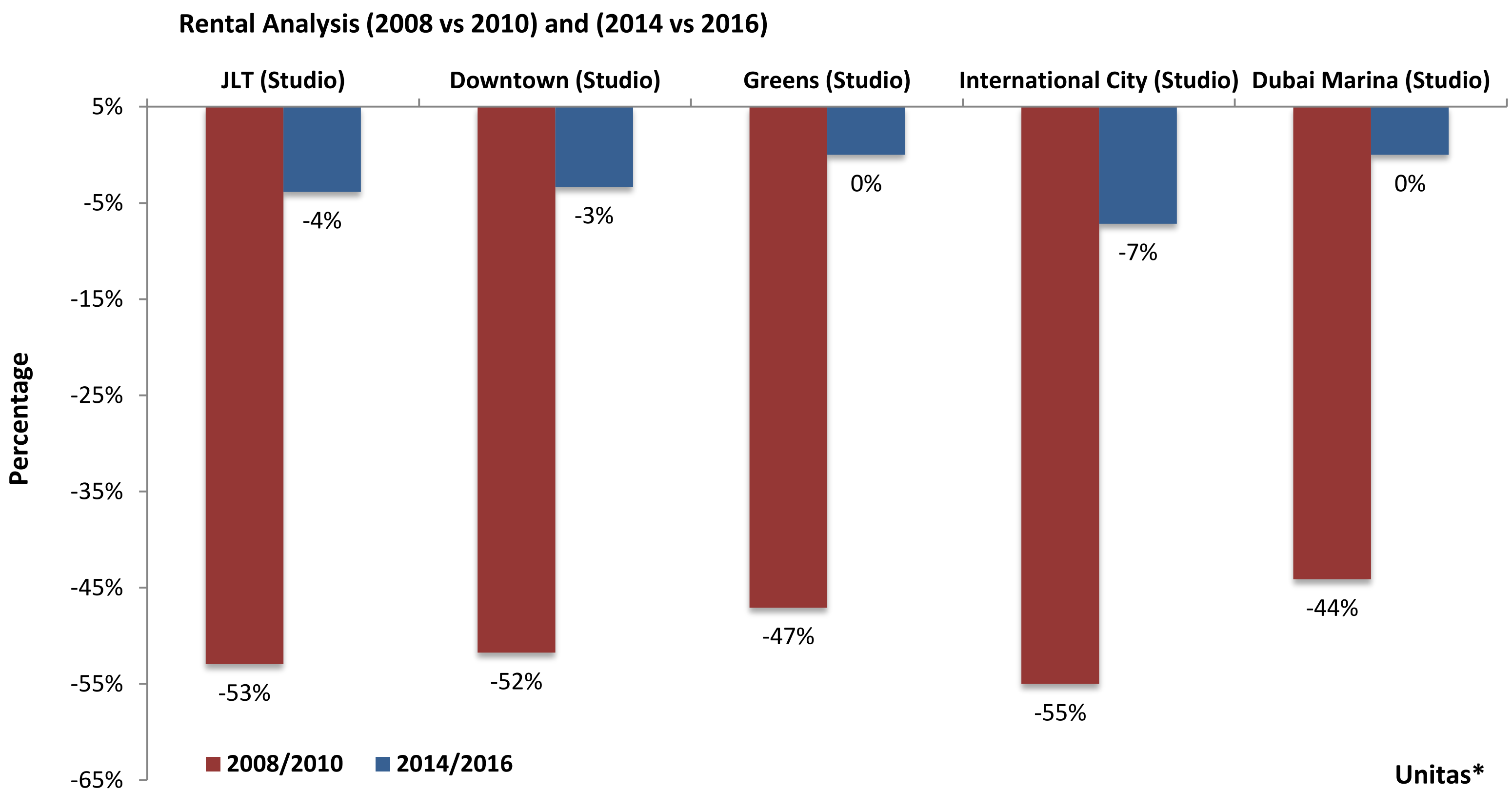
"What Is and What Should Never Be" – Jimmy Page

An Analysis of 2008 and 2014 Crashes in the Real Estate Markets



A comparison between the price action of the real estate markets in 2008 and 2014, reveals that the former had a steeper rate of decline than the latter. In 2008, asset prices fell by 56% more than 2014 in the first 22 months.

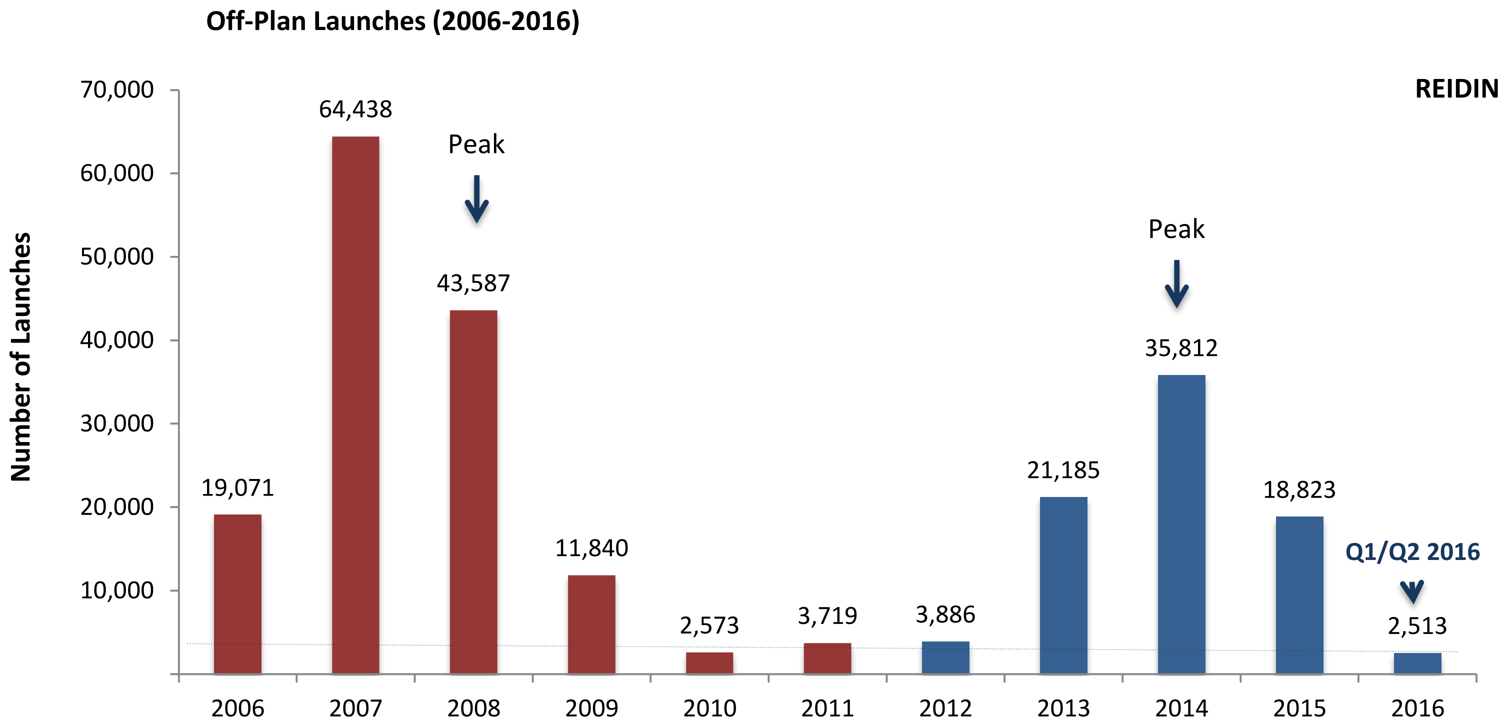
Rentals Less Volatile than Previous Crash



A rental comparison, using the RERA indices, reveals that rents during the first cycle had fallen by 50%. Whereas in the second cycle rental rate declines remain in the single digits. This attests to the lower vacancy rates and more stable expat population within the emirate.

*Data has been collected from the RERA indices

Off Plan Launches Still above 2008 Crash levels in First 5 months of 2016



Using launches as a lagging indicator, we witness that in both cycles the number of off-plan launches subsided as price momentum faded away. In 2010, launches reached a low of 2,573 units after the first crash. Whereas in the current landscape, launches have also decreased, but at a lower rate. In the five months of 2016 the number of launches are at parity with the lows of first cycles. This indicates that investor and end-user appetite remains strong as developers continue to launch new projects.

Conclusions

Unlike, any other city in the region, Dubai increased its budget spending by 11% in 2015, which is inline with its expansive fiscal policy,

A comparison between the price action of the real estate markets in 2008 and 2014, reveals that the former had a steeper rate of decline than the latter

The Macro Difference

A comparison of the macro economic indictors during both the crash periods, reveals startling differences.

In 2009, GDP had a negative growth rate of -4%, whereas in 2015 Dubai continued to grow at +4%. This is reflective of the expansive fiscal policy taken this time around, by increasing budget spend by 11%.

Other factors such as the housing start and company formation growth have been diametrically opposed in both scenarios as well.

A look into the Equity Market

A min to max analysis of the Dubai Financial Markets during both downturns reveals that the 2008 crash had a steeper rate of decline compared to 2014.

The index fell by 77% during the World Financial Crisis, compared to 46% fall in 2014/15 driven by the slump in oil prices.

In the dissection of transactional value, we can witness that in the first cycle the lows touched 1.0B per month, compared to 2015 where the minimum was 2.84 B

Real Estate Market Crashes

Comparing the peaks and troughs of the real estate market, we can witness that the decline in 2008 was much steeper compared to 2014.

The city-wide index crashed by 31% in 2008 in the first 22 months. In 2014/15 it fell by 13% in the same time period. Similarly in rentals, prices corrected by 50%, whereas today the declines remain in single digits.

Using off-plan launches as lagging indicator to measure the health of the market, we can witness that the number of launches in 2009/10 were at 2,573 units. Whereas in 2016, the same number of units have been launched in first few months.

Conclusions

A look into the factors at play during both crash scenarios, we can witness that the health of Dubai economy and markets are in a much better position today compared to 2008.

The current fall in rental rates is the last leg of the real estate price cycle, implying that we could soon be entering into third bull cycle, barring any exogenous events in the global markets.

Given the differences in the price action underpinned by the contrasting macroeconomic fundamentals, we opine that there is a base effect in prices that are underway, which will likely presage a rebound.

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