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Tomorrowland

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Executive Summary

There has been a long-lasting relationship between GDP growth and real estate price action. In times of sluggish GDP growth, real estate prices have had slower or negative rates of appreciation, when compared to that of a buoyant economy. This relationship is witnessed across developed nations such as the UK and USA. A closer look into Dubai's GDP and real estate growth cycles reveal that the trend mirrors that to of the UK and USA. This reinforces the maxim that Dubai's history is essentially intertwined with that of real estate.

Real Estate has historically contributed 1/4th of Dubai's GDP (*Construction & Real Estate services*), making it an essential component of its growth trajectory and engine for job creation. At the inception of freehold the construction sector accounted for 26% of the workforce, which almost doubled nearer to the peak of 2008.

As Dubai real estate assets began its price revival in 2012 after the crash, developers have launched an array of mega projects in the areas of housing, entertainment and infrastructure . Between 2015-2020, an estimated 301 B dirhams of contracts will be completed, which on average is double of the current output of the construction sector. These large scale projects will create immediate demand in the work force, reducing the current occupancy rates of housing stock.

We opine that as these jobs are created, there is a mismatch between the sectors where the jobs are created (predominantly at the mid end) compared to the topography of the real estate, which is skewed towards the higher end. This projected demand is expected to translate into price activity in the medium term.

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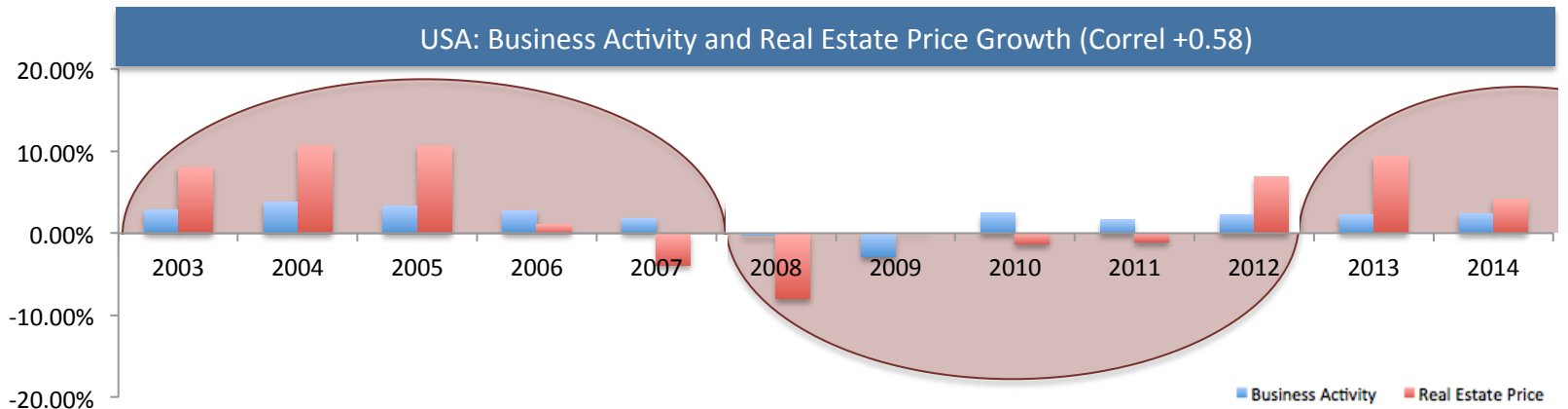
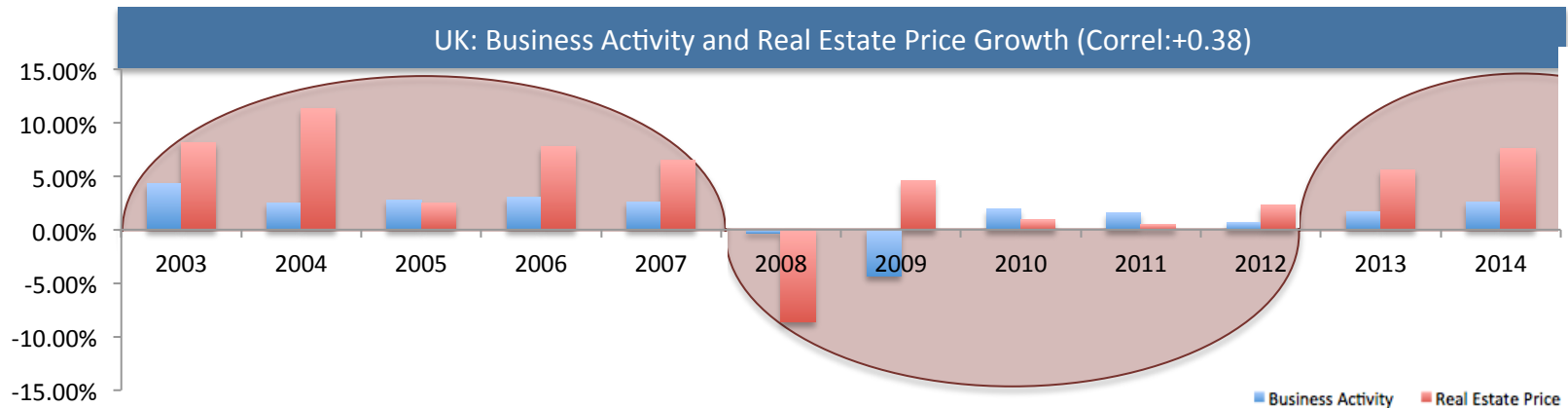
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Real Estate and Business Activity



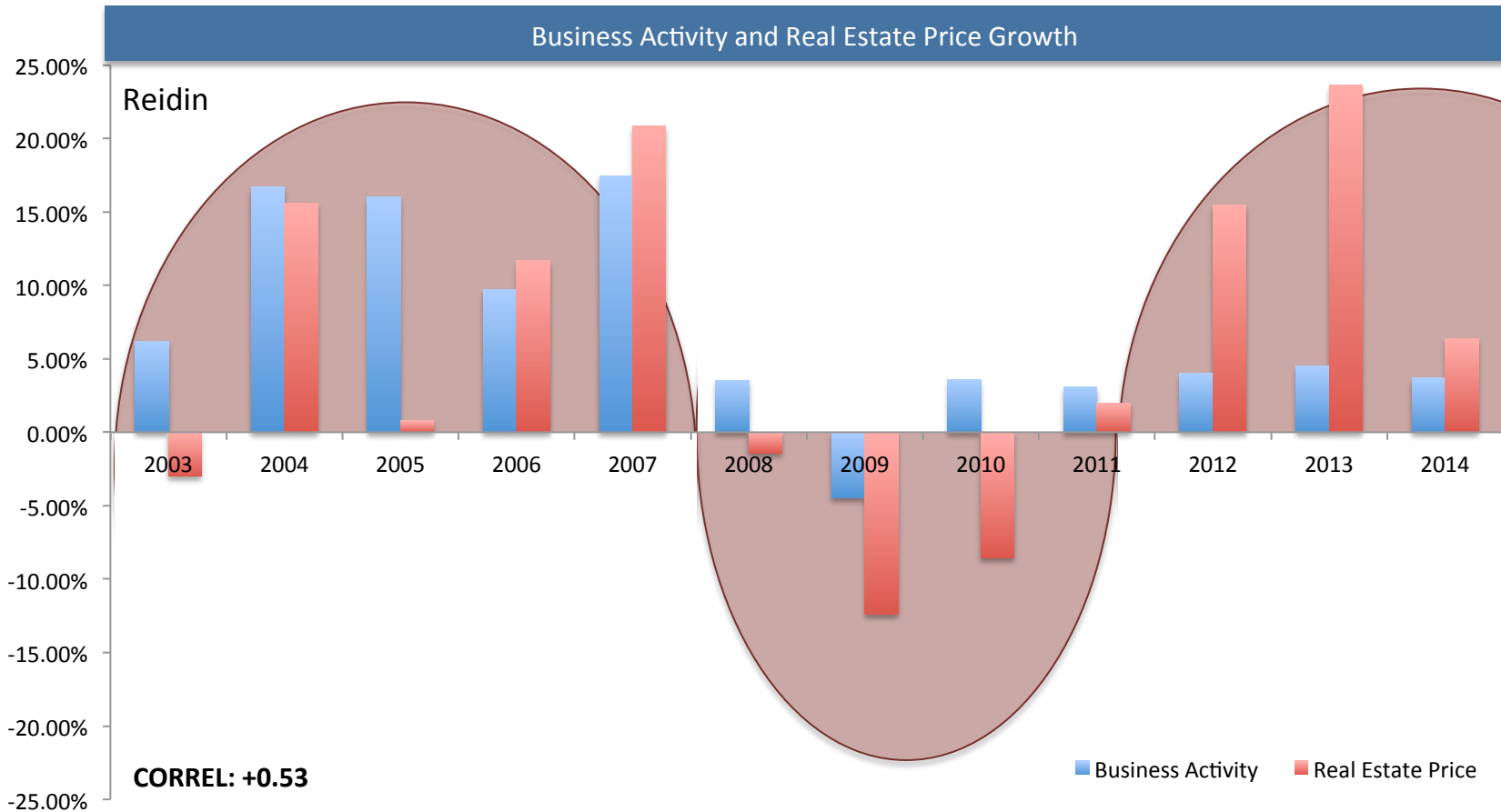
“Exploration is the engine that drives innovation. Innovation drives economic growth. So let's all go exploring”
- Edith Widder

Real Estate and Business Activity Cycles



Historically, real estate price action and GDP growth have followed each other in tandem. An analysis in both the US and UK reveal a high correlation between both variables. This is perhaps the strongest quantification of the “wealth effect” that economists refer to; where strong and rising real estate values feed into the underlying economy via capital formation.

A Closer Look into Dubai



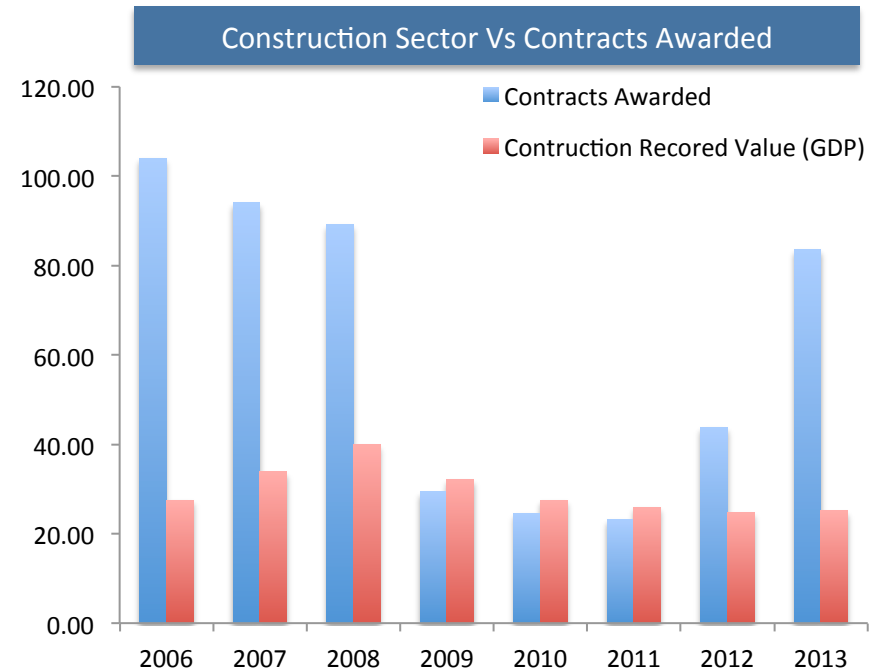
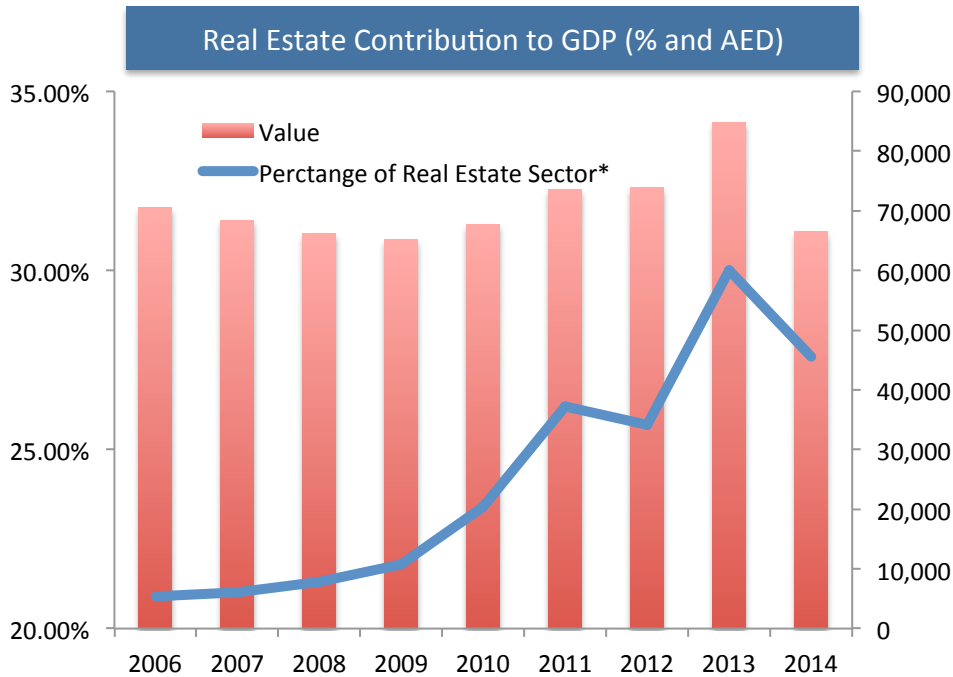
Dubai witnesses a similarly strong correlation, illustrating that real estate values and underlying business activity is intertwined; a symbiotic relationship where the real estate sector is a strong contributor to underlying GDP growth.

Dubai Mega Projects



“Most people talk; we do things. They plan; we achieve. They hesitate; we move ahead. We are living proof that when human beings have the courage and commitment to transform a dream into reality, there is nothing that can stop them”- Mohammed bin Rashid Al Maktoum

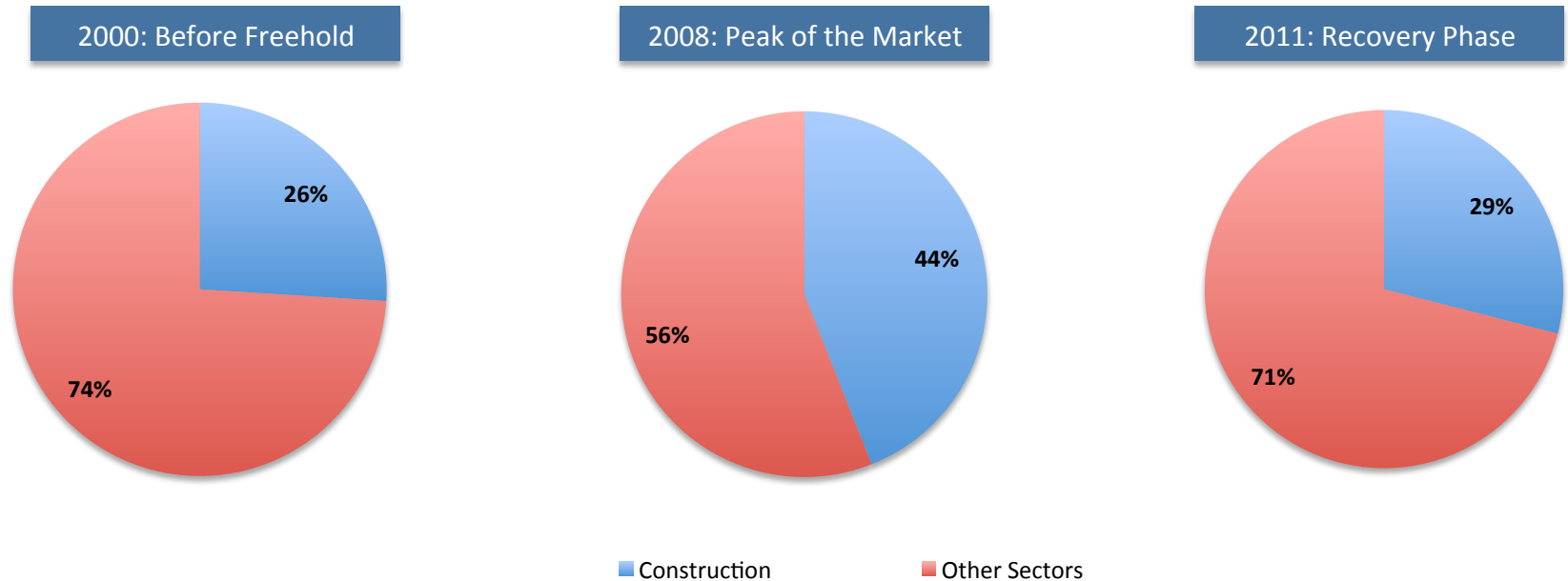
Real Estate and the GDP



The Real Estate sector, which comprises of construction & real estate business services contributes an average of 25% to the gross domestic product of the emirate over the 6 years. It is a major component of the economy, making it pivotal for job creation and a stimulus for other sectors of the GDP. A leading indicator for the direction of the construction sector is in the projects announced and contracts awarded.

As the second chart illustrates, recorded construction value typically lags the annual amount of contracts awarded; this is due to the longevity of such contracts which execute over a number of years. The spurt in contracts awarded imply that recorded construction value in GDP data is expected to rise significantly in the years ahead.

Job Creation and Construction



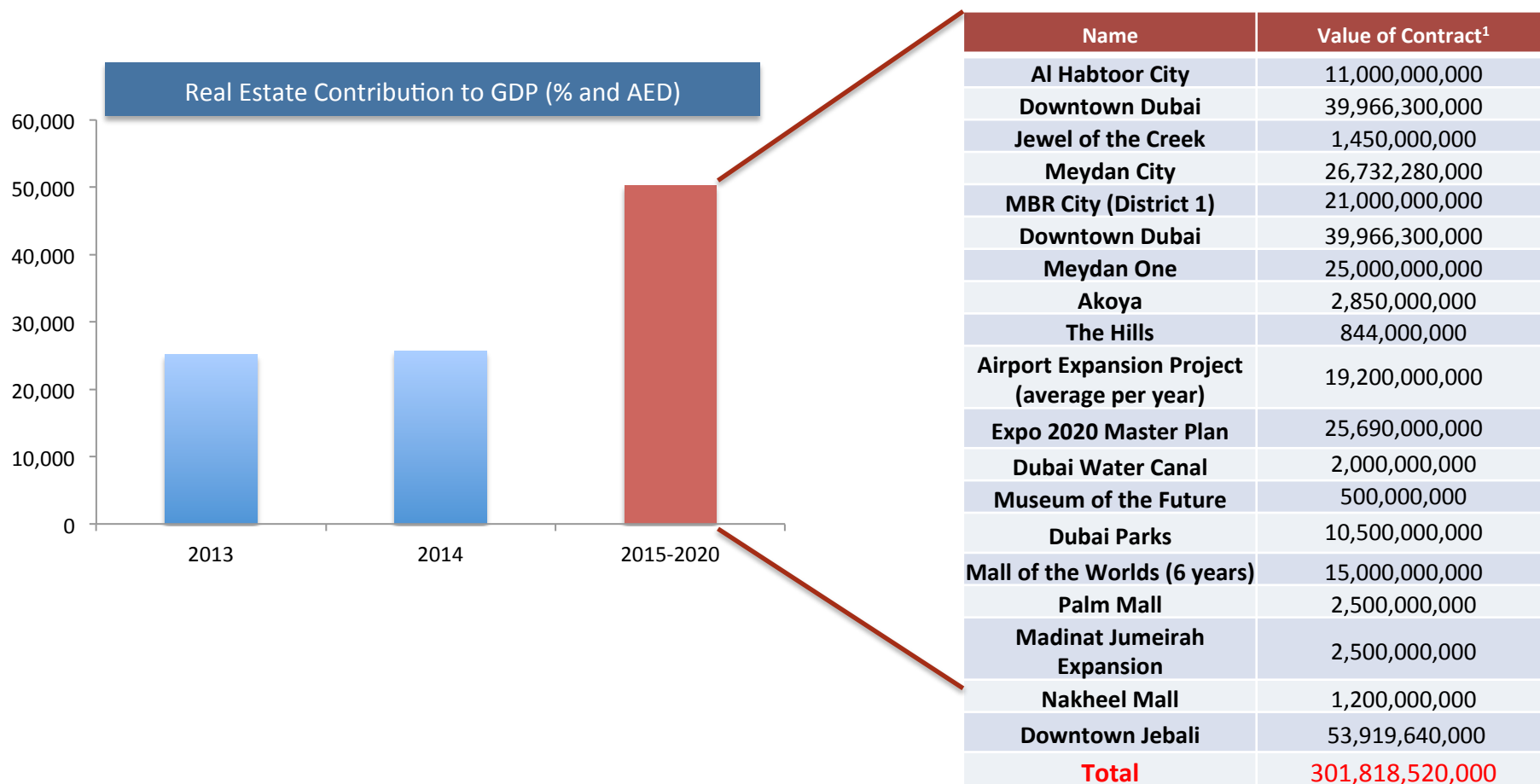
Construction has played a pivotal role in the job creation of the Dubai economy. Before freehold, construction contributed 26% of all jobs in economy. However, after the inception of freehold, Dubai underwent a construction boom, resulting in the work force attributed towards construction increasing to 44% of overall jobs. After the 2008 reversal, that number returned close to 2000 levels as projects began to go on hold and cancelled, as well as Dubai's efforts to diversify onto other sectors took effect.

Future Supply Creates Immediate Demand



“Supply Creates its own Demand” – Say’s Law

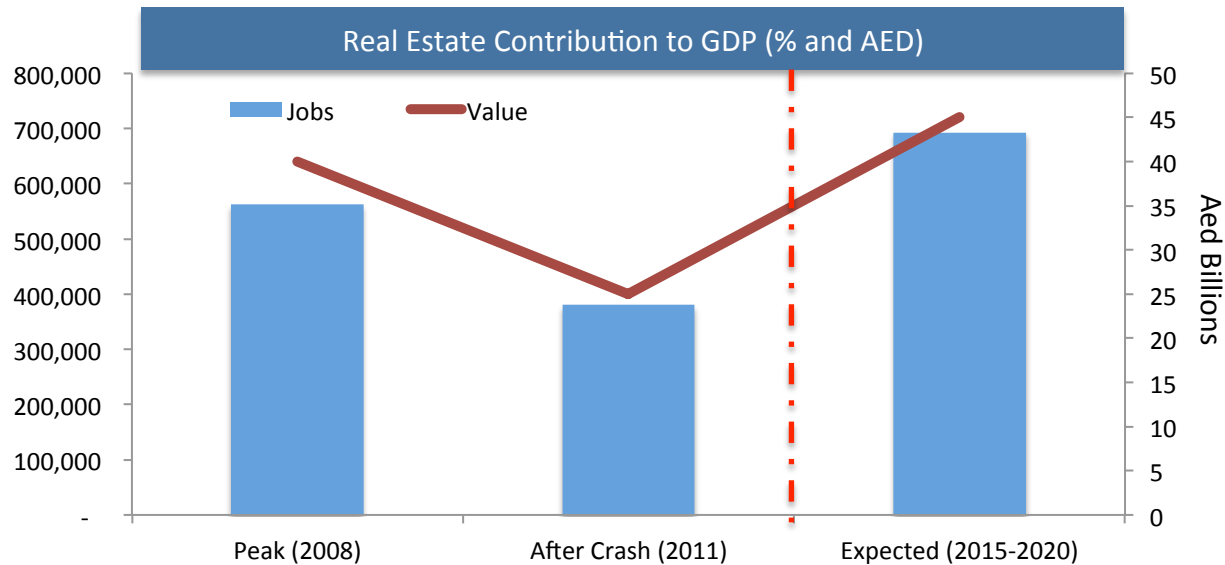
Project Launches Expected to Double Contribution of Construction Sector to GDP



A granular analysis of the contracts awarded over the next 6 years highlights the huge pipeline in store for the construction sector. This reveals that on average the output of the construction sector should double. The above mentioned chart does not take into account the array of small private sector projects, along with other projects that have not announced its contract value (i.e. Nshama), which only serves to reinforce the point that real estate's contribution as a percentage of overall GDP is expected to rise significantly in the years ahead.

¹ Please refer to appendix A for references

Future Supply Creates Immediate Demand

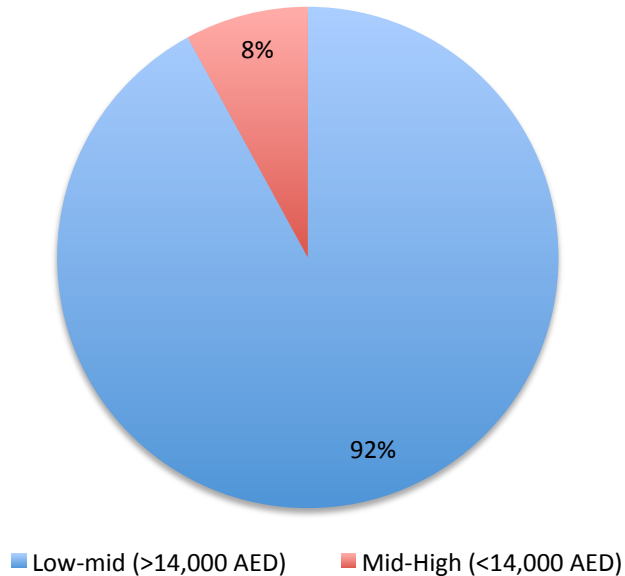


As Dubai undergoes its second construction frenzy, the expected doubling of the output of the construction sector will lead to immediate job creation. This is already underway and highlights the double feedback loop of supply and demand that Dubai is currently undergoing. As the value of construction projects underway increases, the demand for immediate real estate and ancillary services also rises significantly.

Using GDP data to extrapolate jobs per unit of Dollars for the last 10 years, it appears as if the number of jobs that will be created in the next five years, will rise by more than 60% from current levels.

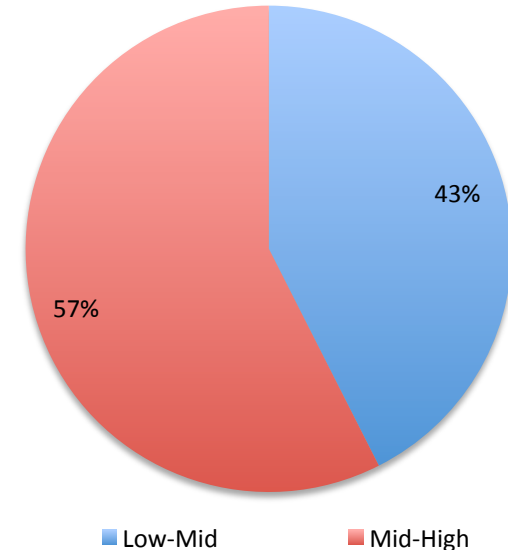
Supply and Demand Mismatch

Real Estate Sector Pay Scale



Major Freehold Supply (Existing)

Reidin



When pay scales are looked at in the real estate sector, a staggering 92% of the jobs created are at the low to mid end. If this trend is expected to continue and if this sector is expected to be a major source of the job creation engine going forward, then it is apparent that there is a mismatch between the job engine and the topography of supply, where only 57% of the market caters to the low-mid income segment. If this trend persists, we opine that there will be a demand/supply mismatch that will exacerbate in the coming years.

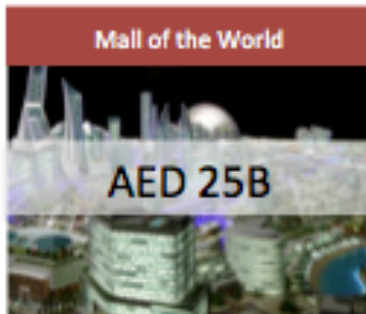
We stipulate that private sector developers will re-calibrate their supply pipeline to cater to this demand (this has already started to occur with projects like Al Khail Heights and Nshama) but given the medium term execution of these projects, the demand dynamics indicate that prices in this segment will remain firm.

Mega Project Expected to Stimulate Construction Sector

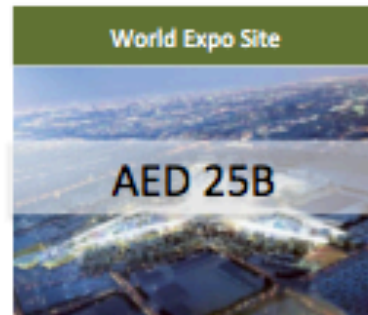
Housing Projects



Entertainment



Infrastructure



Project Update

Blue water Islands



June 26th 2015



Muhammad Bin Rashid City



Aug 13th 2015



Dubai Parks and Resort



Aug 13th 2015



Dubai Frame



July 21th 2015



Pointe Mall



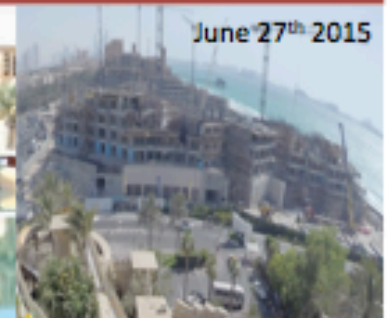
May 30th 2015



Madinat Jumeirah Expansion



June 27th 2015



Conclusions

Historically, real estate price action and GDP growth have followed each other in tandem. An analysis in both the US and UK reveal a high correlation between both variables

The Real Estate sector, which comprises of construction & real estate business services contributes an average of 25% to the gross domestic product of the emirate over the 6 years

Business Activity and Real Estate Cycles

There is a strong correlation between business activity and real estate price action, and is the quantification of the wealth effect that economists refers to.

Dubai follows the pattern exhibited in developed markets such as the UK and the US. This proves the maxim that Dubai's economic history is intertwined with the fortunes of real estate.

Going forward, this trend is expected to continue, and perhaps even strengthen.

Future Supply Create immediate Demand

Using a per unit of value job creation metric, we extrapolate that the number of jobs created in the real estate sector will rise by approximately 60% in the next five years.

Using historical trends, the bulk of the jobs created will be at the low to mid end.

Given the projected supply of Dubai, which appears to be skewed towards the high end, there appears to be a mismatch between the demand and supply metrics

Dubai Mega Projects

Dubai has announced a number of large scale projects that have a total amount in excess of AED 300 Billion as it moves towards the World Expo.

These projects are expected to lead to real estate playing an increasingly larger role in terms of its contribution to GDP as they break ground.

In our analysis, the contribution of private sector projects have been excluded, which will likely smooth out the delays that such large scale projects entail.

Conclusions

Given the large supply pipeline of these large scale projects, and the demand/supply mismatch, it is likely that prices in the mid end of the market will remain relatively firm as upward pressure is created.

Private sector developers are likely to respond by skewing supply dynamics towards this sector. This is a trend that is already underway.

Given the robust job engine that is likely to be created as a result of these large infrastructure projects, demand is expected to remain firm in the medium term, predominantly in the rental space and amongst end users.

Appendix A: Sources

Name	Value of Contract	Source
Al Habtoor City	11,000,000,000	http://www.emirates247.com/news/emirates/al-habtoor-city-to-cost-dh11bn-2013-10-07-1.523781
Downtown Dubai	39,966,300,000	http://www.khaleejtimes.com/article/20140603/ARTICLE/306039858/1037
Jewel of the Creek	1,450,000,000	http://www.hlgroupp.com/en/news/media-centre/latest-news/hlg-awarded-aed145-billion-jewel-of-the-creek-contract.html
Meydan City	26,732,280,000	http://www.khaleejtimes.com/article/20140603/ARTICLE/306039858/1037
MBR City (District 1)	21,000,000,000	http://www.khaleejtimes.com/article/20130502/ARTICLE/305029830/1037
Downtown Dubai	39,966,300,000	http://www.khaleejtimes.com/article/20140603/ARTICLE/306039858/1037
Meydan One	25,000,000,000	http://www.news.com.au/travel/travel-ideas/dubais-latest-project-is-set-to-break-five-world-records/story-e6frfqe0-1227472239349
Akoya	2,850,000,000	http://www.damacproperties.com/en/press-release/damac-properties-awards-aed-2-8-billion-in-contracts-in-first-5-months-of-2015/
The Hills	844,000,000	http://www.thenational.ae/business/property/agcc-picks-up-dh844m-contract-for-emaars-the-hills-project-in-dubai
Airport Expansion Project (6 years)	19,200,000,000	http://uk.reuters.com/article/2014/09/08/uk-emirates-airport-idUKKBN0H30Z320140908
Expo 2020 Master Plan	25,690,000,000	http://www.khaleejtimes.com/article/20140603/ARTICLE/306039858/1037
Dubai Water Canal	2,000,000,000	http://7days.ae/contract-awarded-dhs2-billion-dubai-canal-project
Museum of the Future	500,000,000	http://www.thenational.ae/uae/tourism/sheikh-mohammed-establishes-dubais-museum-of-the-future
Dubai Parks	10,500,000,000	http://www.dubaiparksandresorts.com/about-us/press-release-20150317/
Mall of the Worlds (6 year)	15,000,000,000	http://gulfnews.com/business/sectors/general/dubai-s-mall-of-the-world-to-be-built-in-10-years-1.1357950
Palm Mall	2,500,000,000	http://gulfnews.com/business/sectors/retail/nakheel-receives-all-tenders-for-mall-on-palm-jumeirah-1.1291827
Madinat Jumeirah Expansion	2,500,000,000	http://www.emirates247.com/news/emirates/revealed-how-dubai-s-dh2-5bn-new-madinat-jumeirah-will-look-2014-02-09-1.537597
Nakheel Mall	1,200,000,000	https://www.zawya.com/story/Nakheel awards AED12 bn construction contract for Nakheel MallIGN 27052014 280521
Downtown Jebali	53,919,640,000	http://www.khaleejtimes.com/article/20140603/ARTICLE/306039858/1037
Nuclear Program	2,500,000,000	http://www.arabianbusiness.com/uae-s-nuclear-operator-says-2-5bn-deals-awarded-local-firms-603190.html



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Title	Report	Date
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The Curious Case of Payment Plans	REIDIN - UNITAS Real Estate Market Reports	22-Jul-15
Dubai: The Signal and the Noise	REIDIN - UNITAS Real Estate Market Reports	5-Jul-15
Killing Them Softly: Impact and Incidence of Off-Plan	REIDIN - UNITAS Real Estate Market Reports	15-Jun-15
Dubai: The Ramadan Phenomena	REIDIN - UNITAS Real Estate Market Reports	2-Jun-15
Dubai: Sell in May and Go Away	REIDIN - UNITAS Real Estate Market Reports	11-May-15
Dubai: The Metro Effect	REIDIN - UNITAS Real Estate Market Reports	28-Apr-15
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Dubai: The Path of Symbiosis	REIDIN - UNITAS Real Estate Market Reports	22-Mar-15
Dubai: Boom-Bust-ology	REIDIN - UNITAS Real Estate Market Reports	8-Mar-15
Dubai: Is Commercial Realty Commercially Viable?	REIDIN - UNITAS Real Estate Market Reports	2-Feb-15
Dubai: Shocks, Shifts & a Return to First Principles	REIDIN - UNITAS Real Estate Market Reports	19-Dec-14
Dubai: The Hunt for Yields	REIDIN - UNITAS Real Estate Market Reports	15-Dec-14
Dubai: Amidst a Slowdown, Underlying Strength	REIDIN - UNITAS Real Estate Market Reports	15-Nov-14
Dubai: Where to build?	REIDIN - UNITAS Real Estate Market Reports	22-Oct-14
The Cityscape Effect	REIDIN - UNITAS Real Estate Market Reports	18-Sep-14
Dubai: The Real Estate Value Guide	REIDIN - UNITAS Real Estate Market Reports	3-Sep-14
Dubai: The "New Normal"	REIDIN - UNITAS Real Estate Market Reports	8-Aug-14
Dubai: The Paradox of Affordable Housing	REIDIN - UNITAS Real Estate Market Reports	21-Jul-14

Research Database

Title	Report	Date
Dubai: A Tale of Two Markets	REIDIN - UNITAS Real Estate Market Reports	17-Jun-14
Dubai: The Trophy Buying Phenomena	REIDIN - UNITAS Real Estate Market Reports	22-May-14
Dubai: The Road Ahead	REIDIN - UNITAS Real Estate Market Reports	5-May-14
Dubai: Buy Land Where the City Ends	REIDIN - UNITAS Real Estate Market Reports	7-Apr-14
Dubai: A Closer Look into 2013	REIDIN - UNITAS Real Estate Market Reports	13-Feb-14
Dubai: What Now?	REIDIN - UNITAS Real Estate Market Reports	28-Nov-13
Dubai: If You Build It They Will Come	REIDIN - UNITAS Real Estate Market Reports	30-Sep-13
Dubai: The City is Built Upon it's Commerce	REIDIN - UNITAS Real Estate Market Reports	11-Apr-13
Home Ownership: Dubai's Road to Prosperity	REIDIN - UNITAS Real Estate Market Reports	12-Mar-13

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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