

STRICTLY CONFIDENTIAL



## Dubai: Where to Build?

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# Executive Summary

- As end-unit prices enter its third-cycle, surpassing the peak of 2008, land prices still remain 40% below their peak. However, as transactional activity continues to falls in tandem for both land and end-unit transactions on a YOY basis (16%), land prices continue outperform end-units (25% vs 15%).
- A time-series analysis of Dubai's Q-ratio, reveals that the 6-year historical average has been 1.3, which is 40% higher relative to current levels. As mean reversion takes hold, an increase land prices coupled with a decrease in end-unit prices is expected. The major land banks that will experience this upward price pressure are the areas with high Q-ratios, such as DWC, Arjan, Majan, Liwan, and JVC, compared to Downtown.
- A supply analysis of the commercial supply market, shows an acute shortage of DED office space on Mohammad bin Zayed Road. The bulk of the new commercial supply that is expected to be injected in the market, is going to be released on Sheikh Zayed Road, dominated by Business Bay. Similar to the residential, the main pockets of land that allow commercial buildings on Mohamamd bin Zayed road our JVC, Arjan, Majan, and Liwan.

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## Land Prices: A long Way from Home!



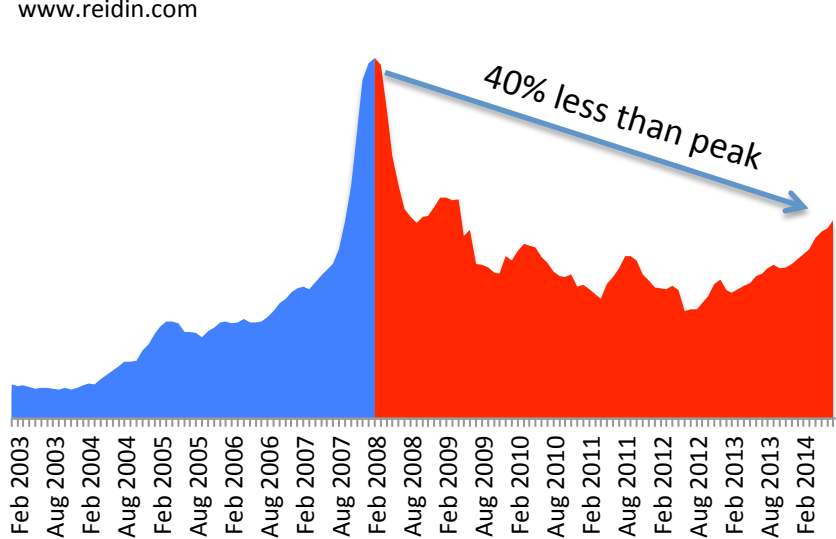
“The major fortunes in America have been made in land.” -John D. Rockefeller



# The Real-Estate Cycles: Land versus End Units

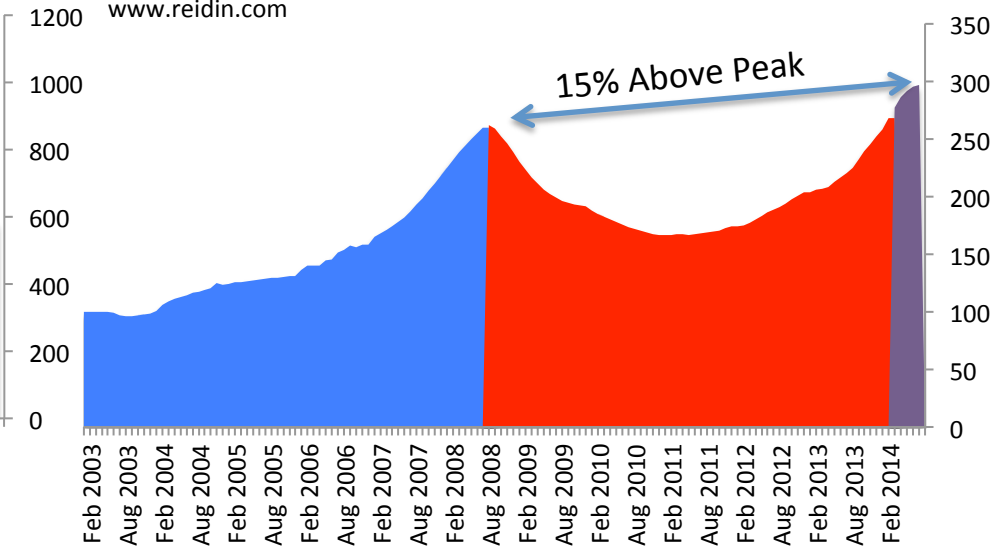
Land Index: 2003-2014

www.reidin.com



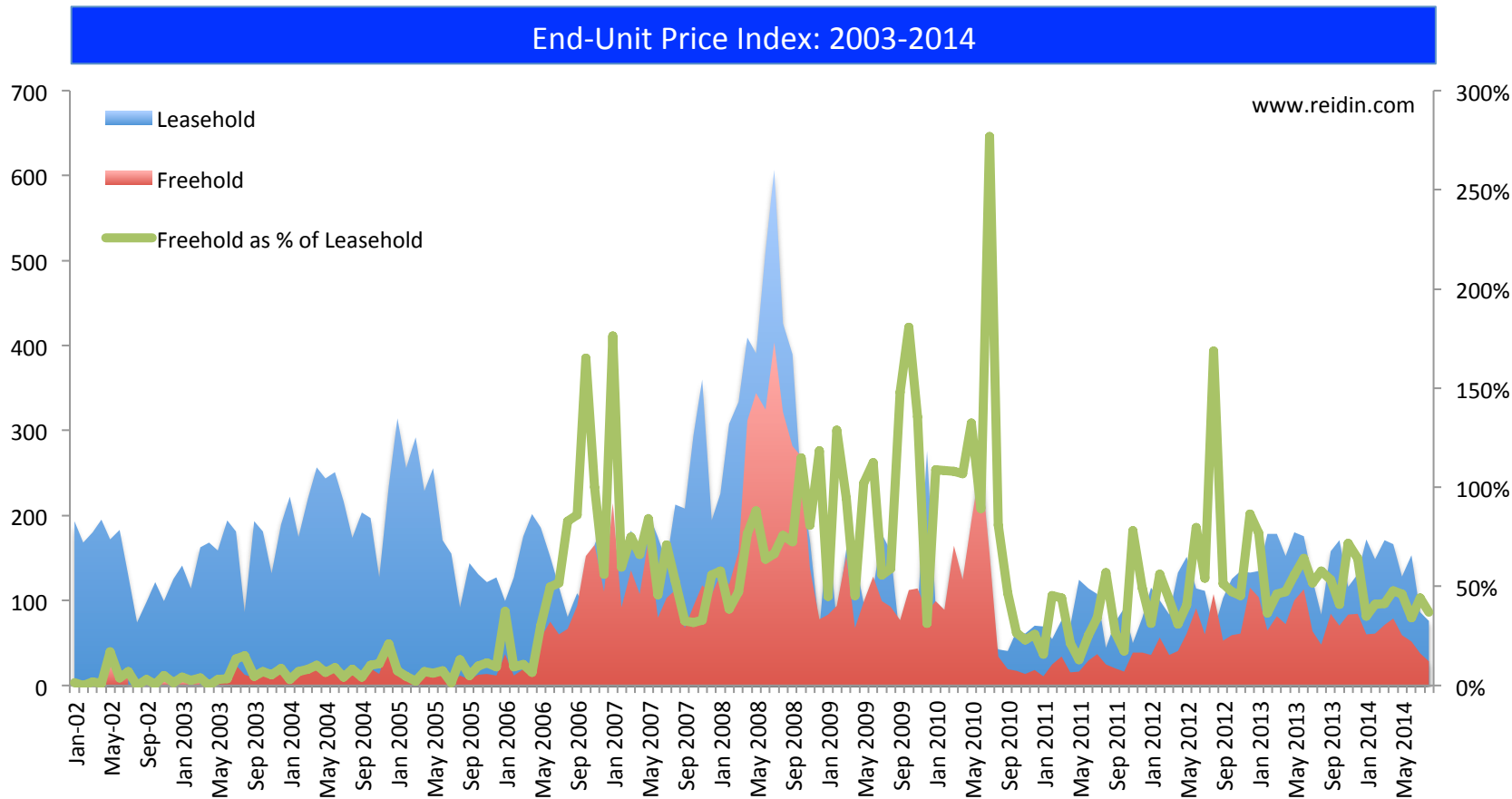
End-Unit Price Index: 2003-2014

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A comparison between the land and residential price index highlights the difference in price action between both asset classes. The end-unit prices have surpassed their peak of 2008, whereas land prices are still 40% below its peak levels.

# Freehold areas the More Popular Choice for Development



An analysis of land transactions bifurcated between leasehold and freehold area shows a growing popularity in the later, where in 2008 freehold transactions accounted for more than half of overall transactions. Even though the number of transactions abated in the ensuing crash, it has rebounded in the last 18 months, illustrating the rising significance of the freehold in the city.

# Where to Build: Residential



“Now, one thing I tell everyone is learn about real estate. Repeat after me: real estate provides the highest returns, the greatest values and the least risk”- Armstrong Williams

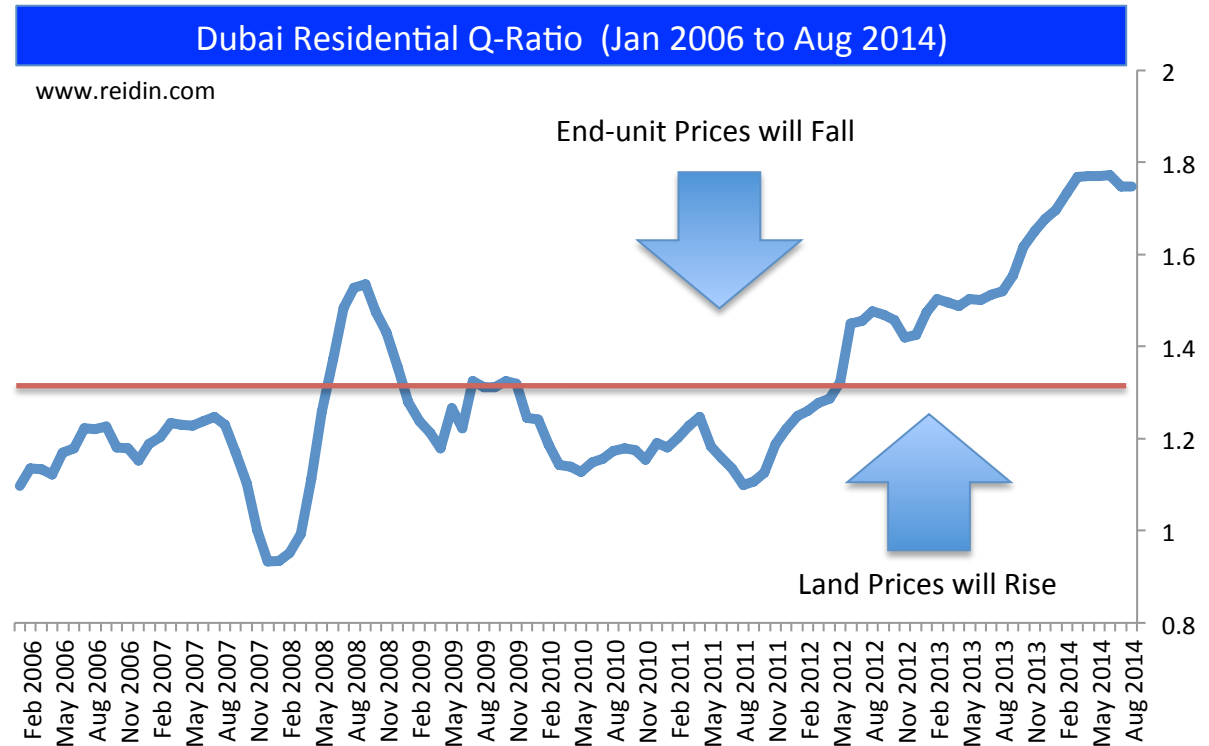
# The Q-Ratio Analysis

## Tobin's Q-Ratio

A ratio devised by James Tobin of Yale University, Nobel laureate in economics, is a measure of an asset in relation to its market value.

The formula for Tobin's Q is:

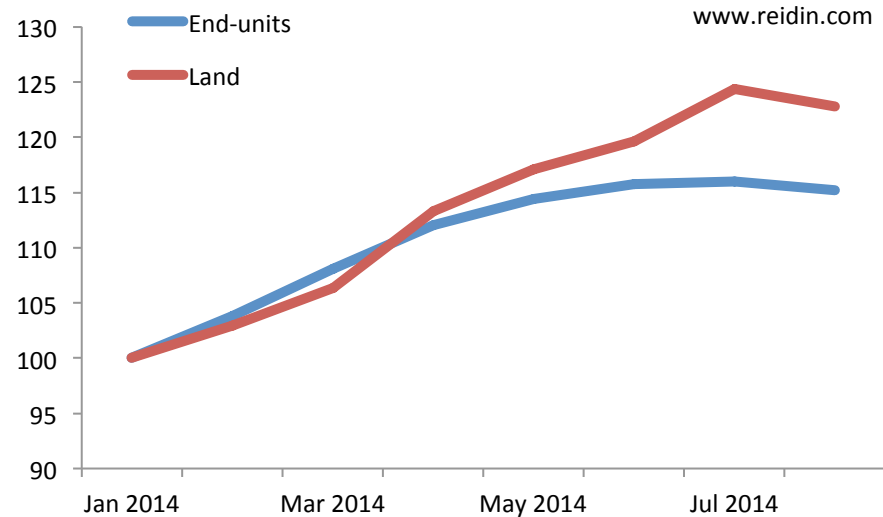
$$\text{Tobin's Q} = \frac{\text{Total Market Value of Firm} / \text{Total Asset Value of Firm}}$$



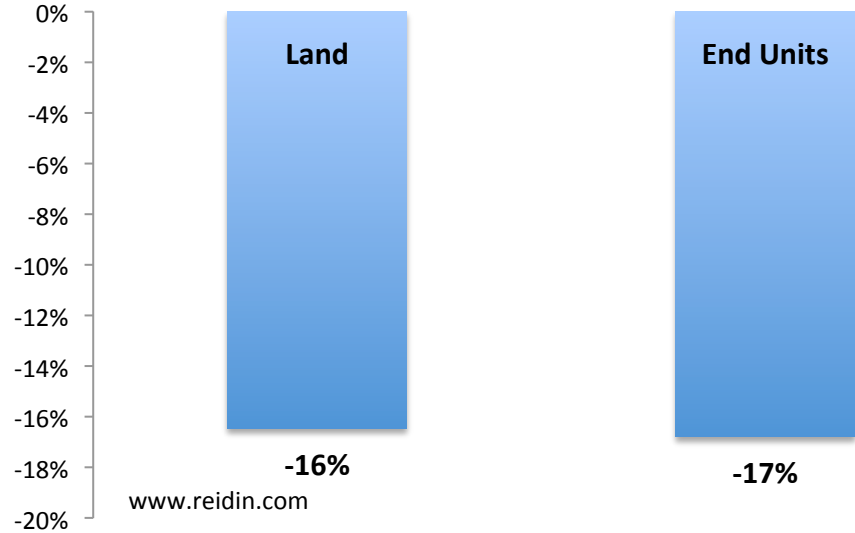
An analysis of Q-Ratios shows that the historical average is 1.3, which is 40% higher than current levels. This implies that a surge in land prices is expected, coupled with tapering off of end-unit prices. As developers rush to areas with higher Q-ratios arbitraging away the super-normal profits, land prices will continue to follow an upward trajectory.

# Land Continues to Outperform as Transactional Activity Begins to Dip

### Land Vs End-Unit Prices



### Transactional Activity (Jan-Aug 2013) vs (Jan-Aug 2014)



A YoY analysis of transactional activity shows a dip of 16-17% in both segments; however, land prices have continued to outperform end-units by 7%. This implies the sensitivity between transactional activity and prices is higher for end-units, compared to land. We opine that developers will continue to snap up parcels of land, especially in areas with high Q ratios, leading to prices in these areas rising.



## Buy Land with Higher Q-Ratios!

	Area	2013	2014	Price Increase*	Q-ratio
High	DWC	80 Aed/Sqft	160 Aed/Sqft	100%	2
	Majan	70 Aed/Sqft	130 Aed/Sqft	86%	1.8
	JVC	80 Aed/Sqft	145 Aed/Sqft	81%	1.7
Low	Downtown	350 Aed/Sqft	500 Aed/Sqft	45%	1.5
	Business Bay	275 Aed/Sqft	400 Aed/Sqft	45%	1.5
	International City	70 Aed/Sqft	95 Aed/Sqft	36%	1.4

Source: Global Capital Partners

The Q-Ratio shows helps developers analyze their return on equity for their projects, a higher Q-ratio implies a higher return and vice-versa. The above analysis illustrates a strong correlation between the appreciation of land and the Q-ratio.

## Where to Build: Commercial



“Growth is never by mere chance; it is the result of forces working together.” – James Cash Penny

## Shortage of Supply of Commercial Freehold Properties that Offer DED Licenses on Muhammad Bin Zayed Road

Sheikh Zayed Corridor		
	Free zone	DED
Freehold	38%	49%
Leasehold	-	10%

Muhammad bin Zayed Corridor*		
	Freehold	DED
Freezone	4%	-
Leasehold	-	-

Future Supply (2015-2016)		
Community	% Break-down	Sqft
Business Bay	41%	5,061,383
JLT	17%	2,126,159
SZR	10%	1,184,040
DIFC	7%	876,997
The Greens	7%	862,196
Dubai Design District	7%	861,120
Tecom	7%	806,396
DIP	4%	430,560

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A supply analysis of commercial projects in Dubai shows that the bulk of supply expected to hit the market will be on Sheikh Zayed Road. In addition, there is an acute shortage of office supply on Mohammad bin Zayed corridor especially in the DED segment. As Dubai continues to expand inwards, with mega project such as the Mohammad bin Rashid City, we expect to see an uptick for commercial space within this corridor.

# Major Repositories for this Sector will be Arjan, Majan, Liwan, and JVC

Majan



**Area:** 16 million sqft  
**Type:** Mixed Use  
**Development Stage:** Infancy  
**Activity Type:** DED Licenses  
**Surrounding Areas:** Al-Barari, Legends, and City of Arabia

Liwan



**Area:** 13 million sqft  
**Type:** Mixed Use  
**Development Stage:** Infancy  
**Activity Type:** DED Licenses  
**Surrounding Areas:** DSO, International City, City of Arabia

Arjan



**Area:** 11 million sqft  
**Type:** Mixed Use  
**Development Stage:** Infancy  
**Activity Type:** DED Licenses  
**Surrounding Areas:** JVC, Sports City, IMPZ, Barsha

JVC



**Area:** 22 million sqft  
**Type:** Mixed Use  
**Development Stage:** Infancy  
**Activity Type:** DED Licenses  
**Surrounding Areas:** Sports City, Motor City, IMPZ, Barsha

The major repositories that offer DED licenses will be Majan, Arjan, liawan, and JVC, which will be driven by the expansion of the real estate, legal, and banking sectors (as the main entity is only allowed to operate in under DED jurisdiction).

# Examples of DED Commercial Office Space Available on Mohammad bin Zayed Road

## Arjan



Building: Light Tower  
Status: Completed



Building: Diamond Business Center  
Status: Completed

## Liwan



Building: Queue Point  
Status: Under Construction

## Majan



Building: Palazzo Venezia  
Status: Under Construction

## JVC



Building: Prime Business Tower  
Status: Completed



## Comparison Between Replacement Value of DED Offices

Mohammad Bin Zayed Road						
	Land Cost	Build Cost	Replacement Cost	Market Price	Difference	Q Ratio
Arjan	150	400	550	950	250	1.7
Majan	130	400	530	950	250	1.8
Liwan	150	400	550	950	250	1.7

Sheikh Zayed Road						
	Land Cost	Build Cost	Replacement Cost	Market Price	Difference	Q Ratio
Business Bay	400	400	800	1400	500	1.5

Source: Global Capital Partners

A comparison of Q-Ratio's between commercial areas on Mohammad bin Zayed road and Sheikh Zayed road, reveals that the former is a more lucrative option for developers as they have a higher Q-Ratio.

# Conclusions

*The end-unit prices have surpassed their peak of 2008, whereas land prices are still at 50% of its peak levels.*

*An analysis of Q-Ratios shows that the historical average is 1.3 for the last 8 years, which is 40% higher than current levels*

## Land Dynamics

End unit prices have surpassed their peak by 12% while land price still lag by 40% from their all time highs

Transactional activity has dropped equally in both segments, however land prices have continued to appreciate faster

Moreover, there has also been a clear switch from areas of developments, moving towards free-hold areas as the more popular choice

## Where to Build: Commercial

An in-depth analysis of the up-coming supply for commercial space, shows an acute shortage on Mohammad bin Zayed Road, especially in the DED zone

As Dubai's population begins to expand inward with new supply focused on the Mohammad bin Zayed Corridor, we expect to see an uptick for DED commercial demand driven by the banking, real-estate and legal service sectors.

## Where to Build: Residential

The Q-ratio is a tool developers use to evaluate their returns; the higher the Q-Ratio, the Higher the Return.

The areas with a higher Q-ratio, will experience higher appreciation of land prices, as developers arbitrage away expected super normal profits.

DWC has the highest Q-ratio, implying that land prices will continue to gather momentum, especially towards the build up for the World Expo 2020

## Outlook

Land prices are expected to rise, even as end unit prices stabilize, as developers move to accelerate construction and offer units along the Mohammad Bin Zayed Road. Developments for offices and residential units along this corridor are expected to rise, giving birth to a more sustainable affordable housing segment.

Investors are already capitalizing on this phenomenon by purchasing land parcels in these areas; a phenomenon we believe we continue for the foreseeable future.



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HH General Sheikh Mohammed Bin Rashid Al Maktoum  
The Ruler of Dubai and Prime Minister of UAE

