

STRICTLY CONFIDENTIAL



## Dubai: Amidst a Slowdown, Underlying Strength

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# Executive Summary

- Even as transactional activity has fallen by 50%, this year, an analysis reveals that brunt of the decline has been in cash transactions, indicating a systemic decline in speculative activity. However, the opposite trend-line is seen in mortgage transactions across both segments, as we hypothesize that end user purchases continues to increase, reaffirming the house hypothesis. This increase in mortgage activity is led by two bedrooms in the apartments segment, whereas in villas its dominated by the four and five bedrooms further giving credence to the claim, and the strongest indicator of a maturing real estate market.
- A closer look into the data reveals a crossover between transactions of four bedroom apartments to four bedroom villas when it comes to home-ownership. Mortgage transactions in four bedroom apartments have registered virtually no growth over the last 8 years while four+ bedroom villa mortgages have continued to rise steadily.
- A city-wide price comparison unit-wise, shows that within the villa segment 5 bedrooms have consistently out-performed the market in the last 8 years. In the apartment space, smaller sizes continue to attract investor activity; however there appears to be a clear shift towards the two bedroom plus spaces; we opine that this trend will continue to grow as end users increasingly dominate the market going forward.
- A rental comparison of the RERA Index of the third quarter of 2010 to date shows that the largest percentage increase is in the four and five bedrooms compared to the smaller size units. This increase implies that the larger units, will incur a higher number of mortgages as residents begin to buy their own homes as renting becomes uneconomical.

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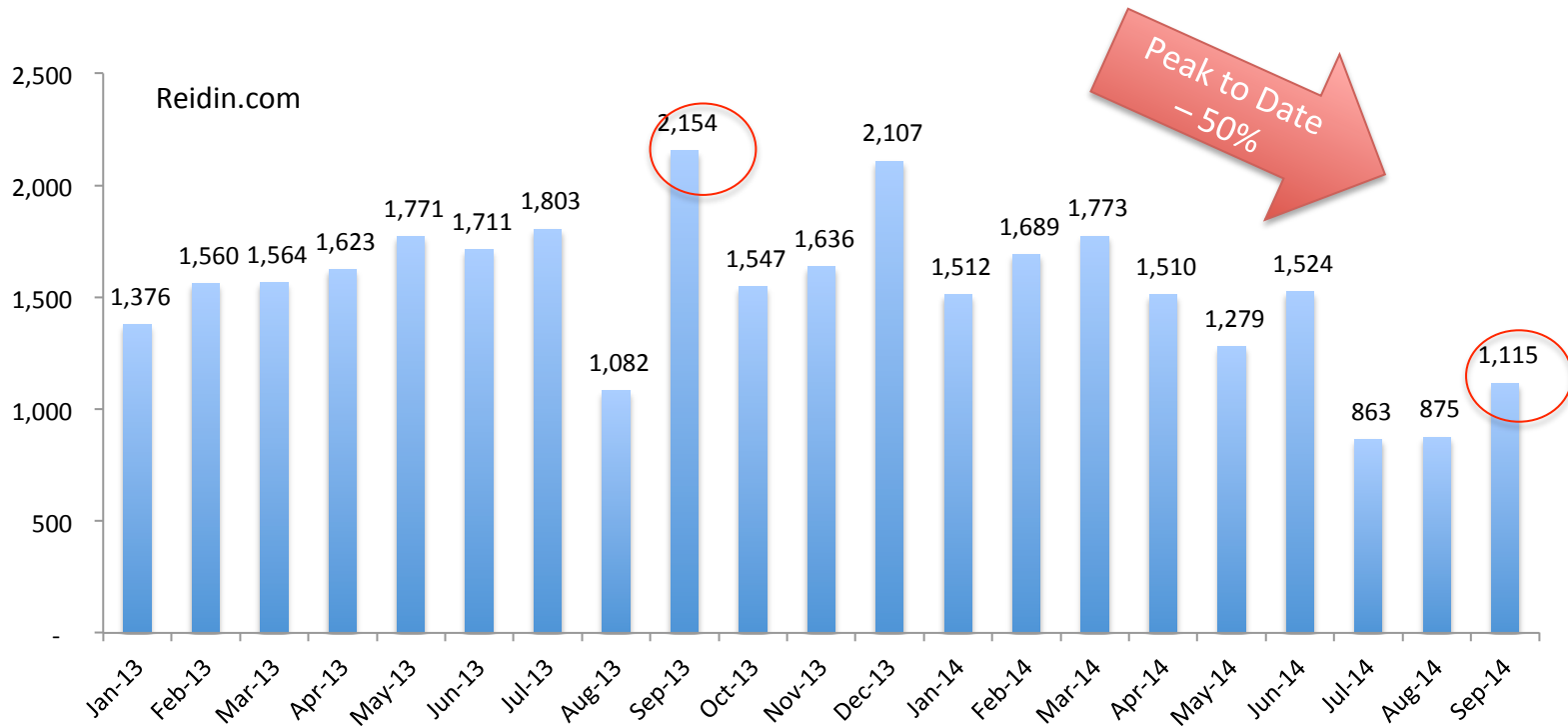
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# Transactional Activity



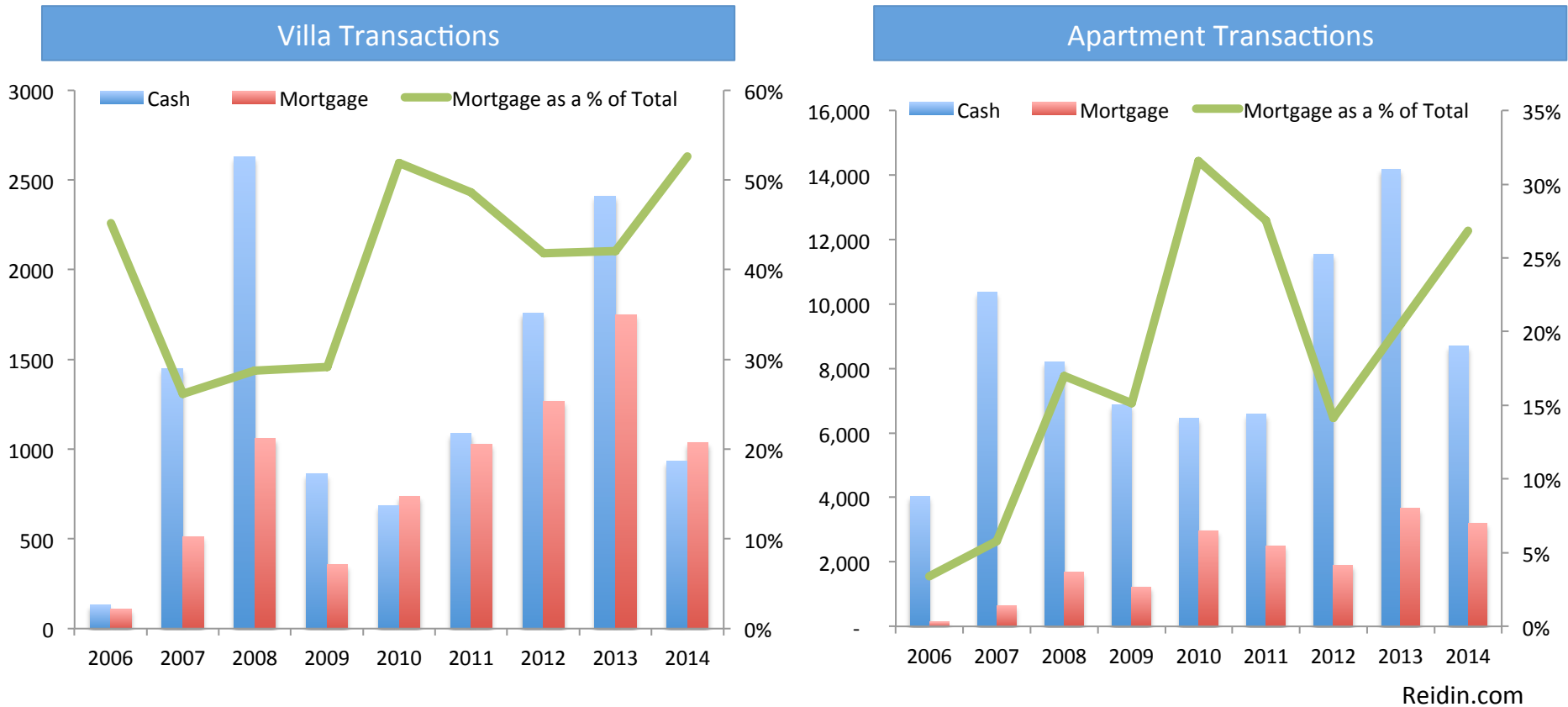
“Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value” -  
Warren Buffett

# Transactional Activity Overview



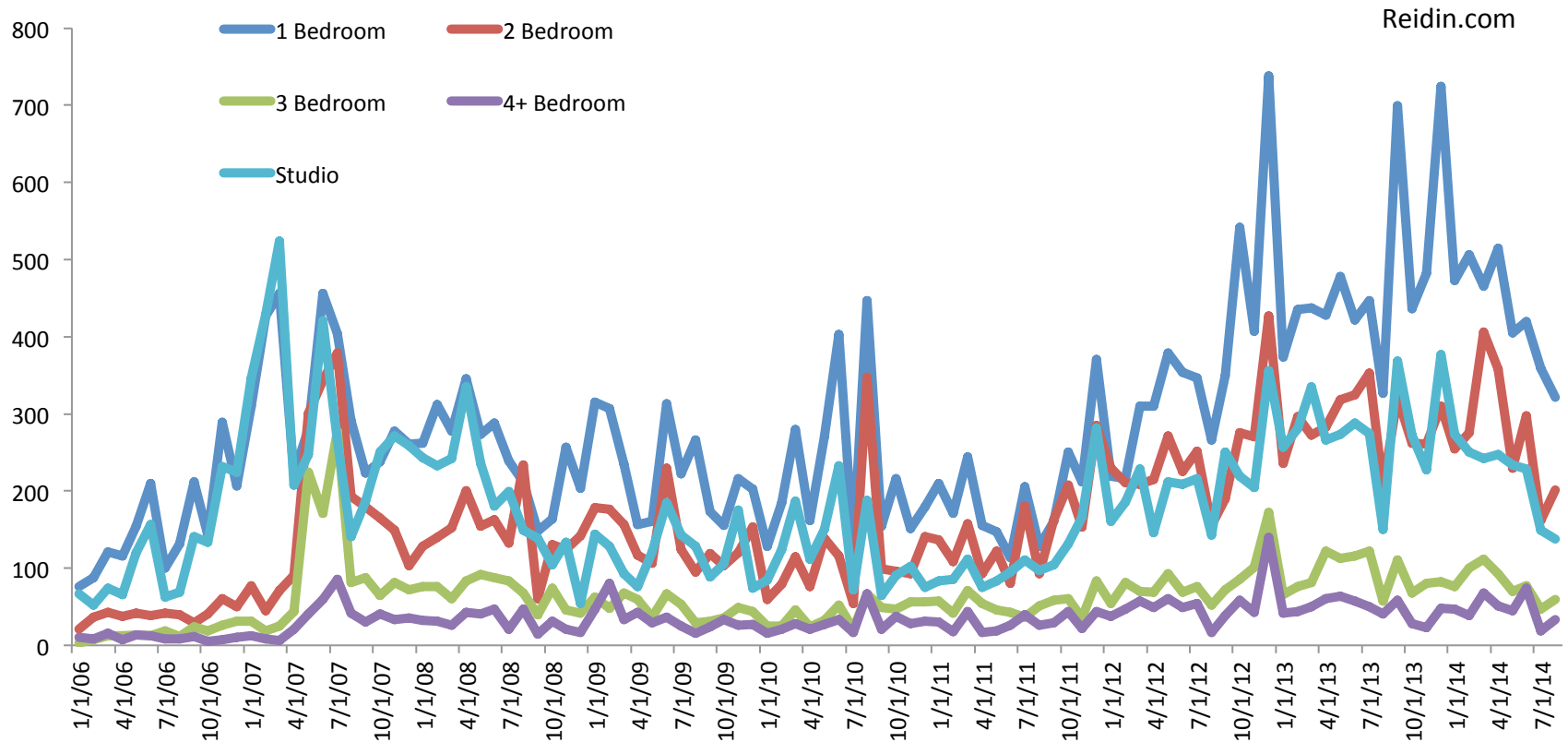
Transactional analysis conducted over the last year reveals that the volume has declined by approximately 50% on a yoy basis, reaffirming market reports that speculative froth has disappeared.

# Mortgage Transactions Trend Higher for Both Villas and Apartments



A time series analysis of transactions for both apartments and villas, shows a clear upwards trends for mortgages, indicating a stronger end-user base for Dubai. Villa mortgages as a percentage of total volume has risen by 10% YOY, while apartments have risen 6%, exhibiting a steady rise even over the longer term villa mortgage growth rate of, apartment

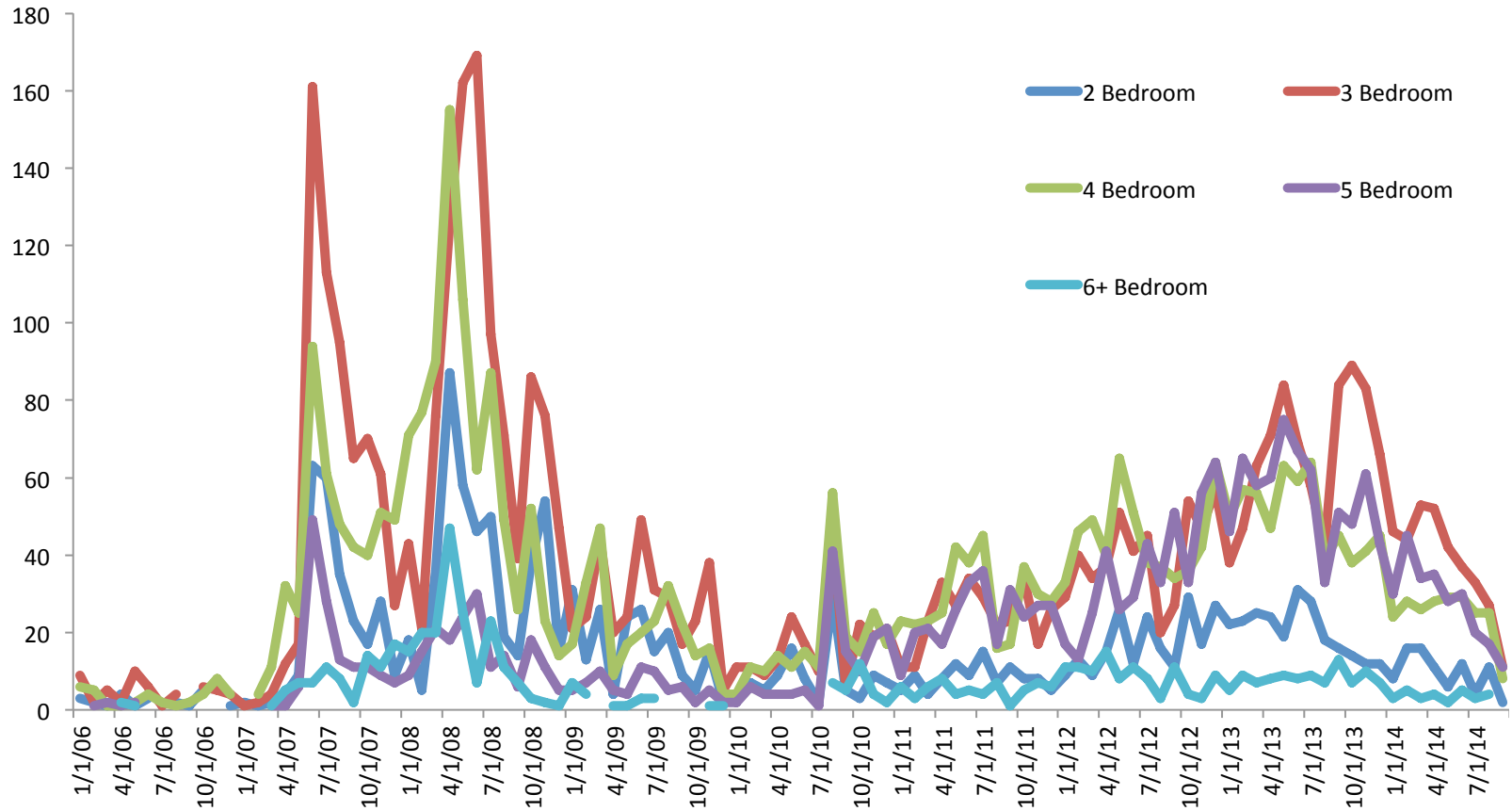
# Unit-wise Break Down: Cash Transaction for Apartments



A granular analysis of cash transactions of apartments shows that the most popular unit is the one bedroom followed by two bedrooms and studios, where as three and Four bedrooms have remained stagnant for the last 8 years. In the last 8 months, the market has witnessed a dramatic fall in activity as speculative activity has subsided. to see a fall in studios, one bedrooms, and two bedrooms.

# Unit-wise Break Down: Cash Transaction for Villas

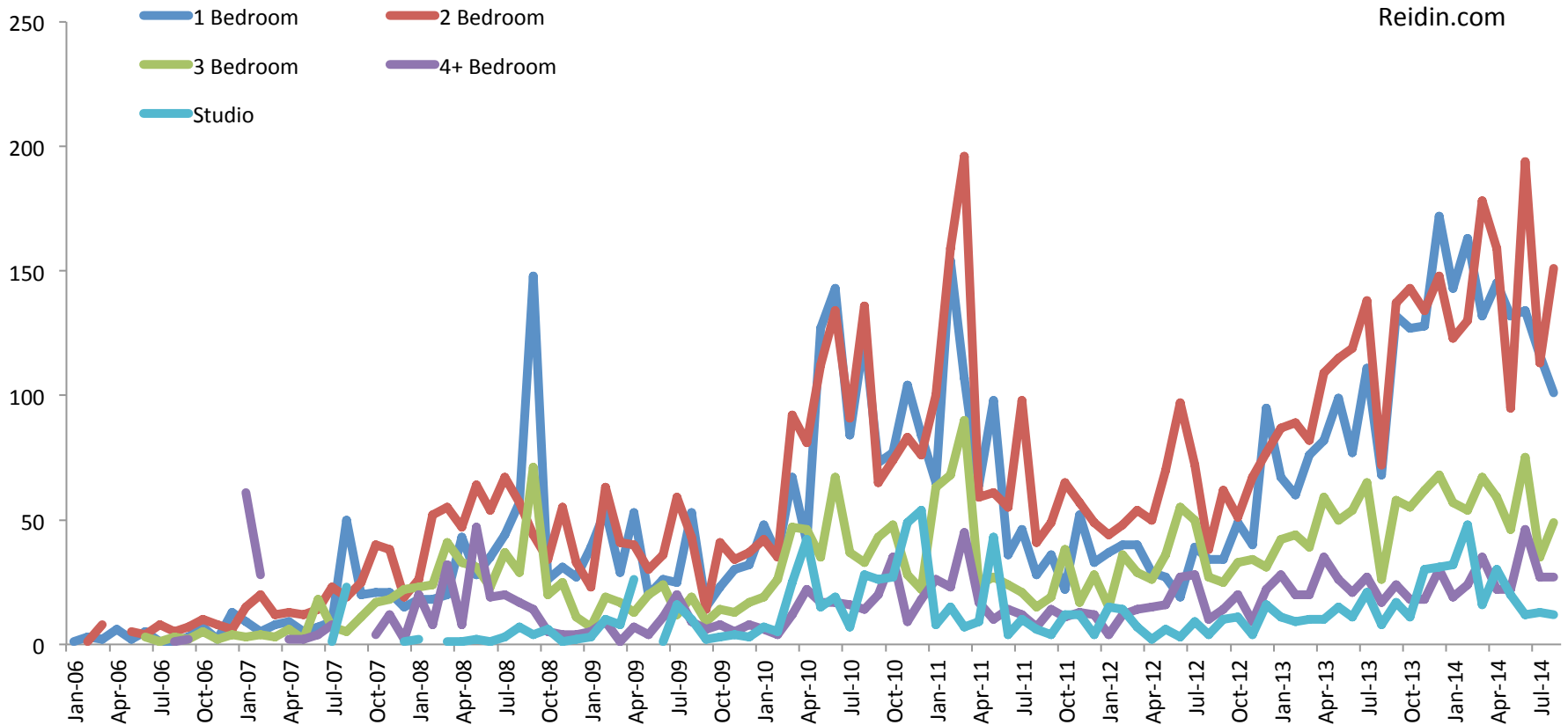
Reidin.com



Within the villa segments, we can see that three, four, and five bedroom are the most popular, followed by two and six bedrooms.

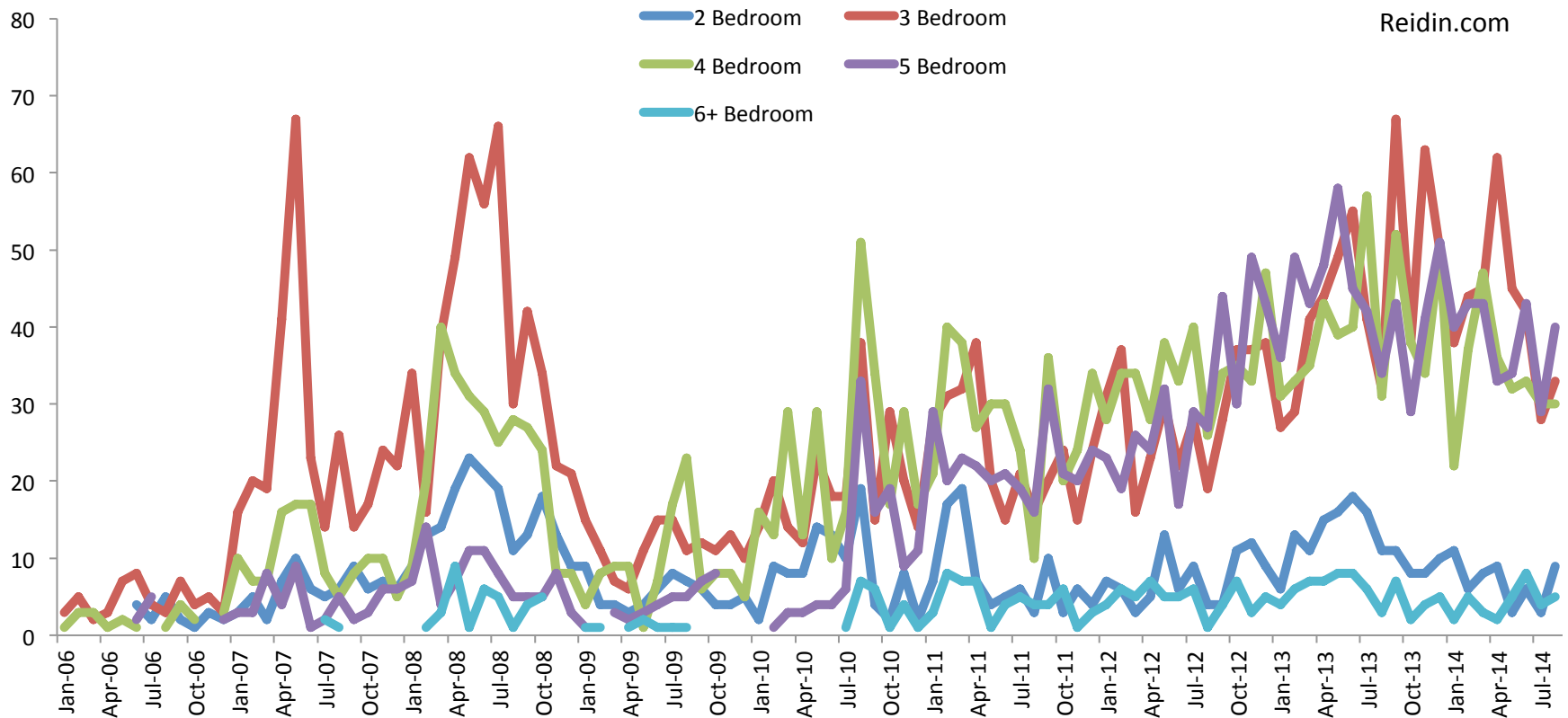


# Unit-wise Break Down: Mortgages Transaction for Apartments



The mortgage activity shows a dramatically different scenario with the 2 bedroom condominium registering the highest growth rate, closely followed by the 1 bedroom space.

# Unit-wise Break Down: Mortgages Transaction for Villas



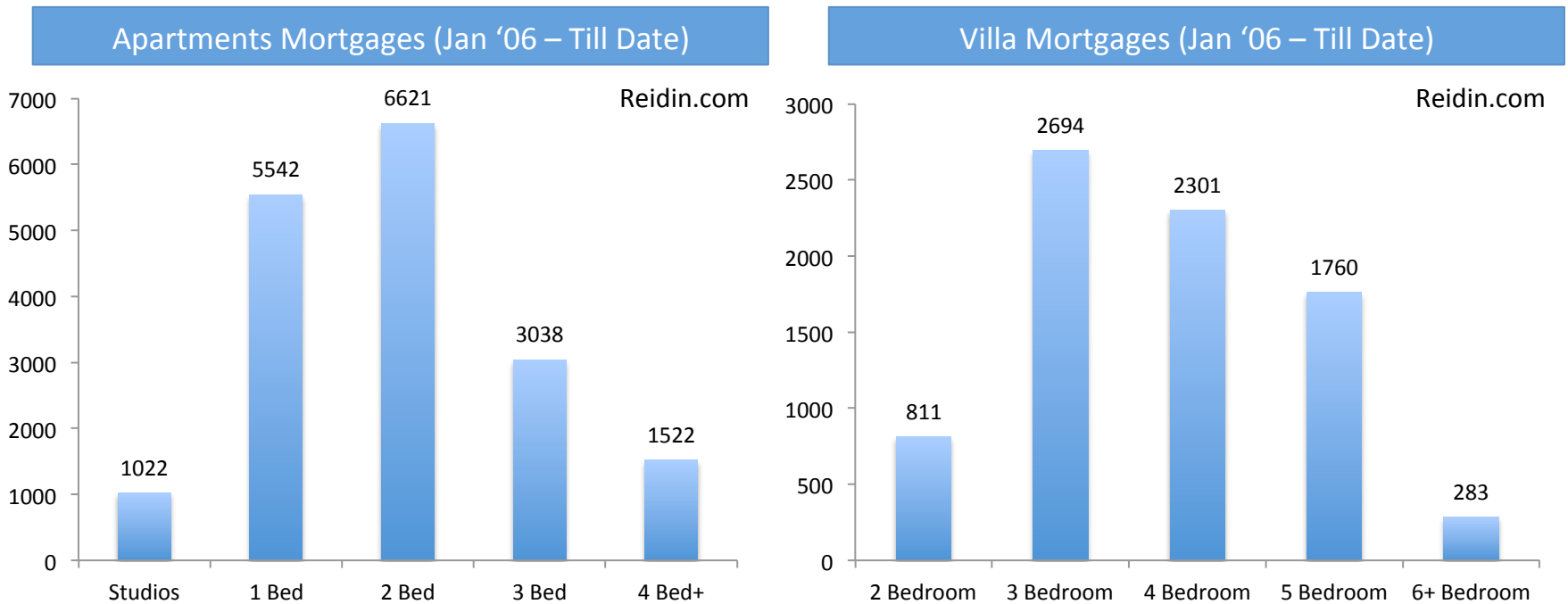
Similarly in the villa segment, transactional activity continues to spiral upwards as homeownership take place. A grass-root level analysis shows that three, four, and five bedrooms have the highest number of mortgages, whereas the two and six bedrooms trail behind (indicating that the latter is more in the domain of the trophy and luxury space).

## The Crossover between Villa and Apartment living



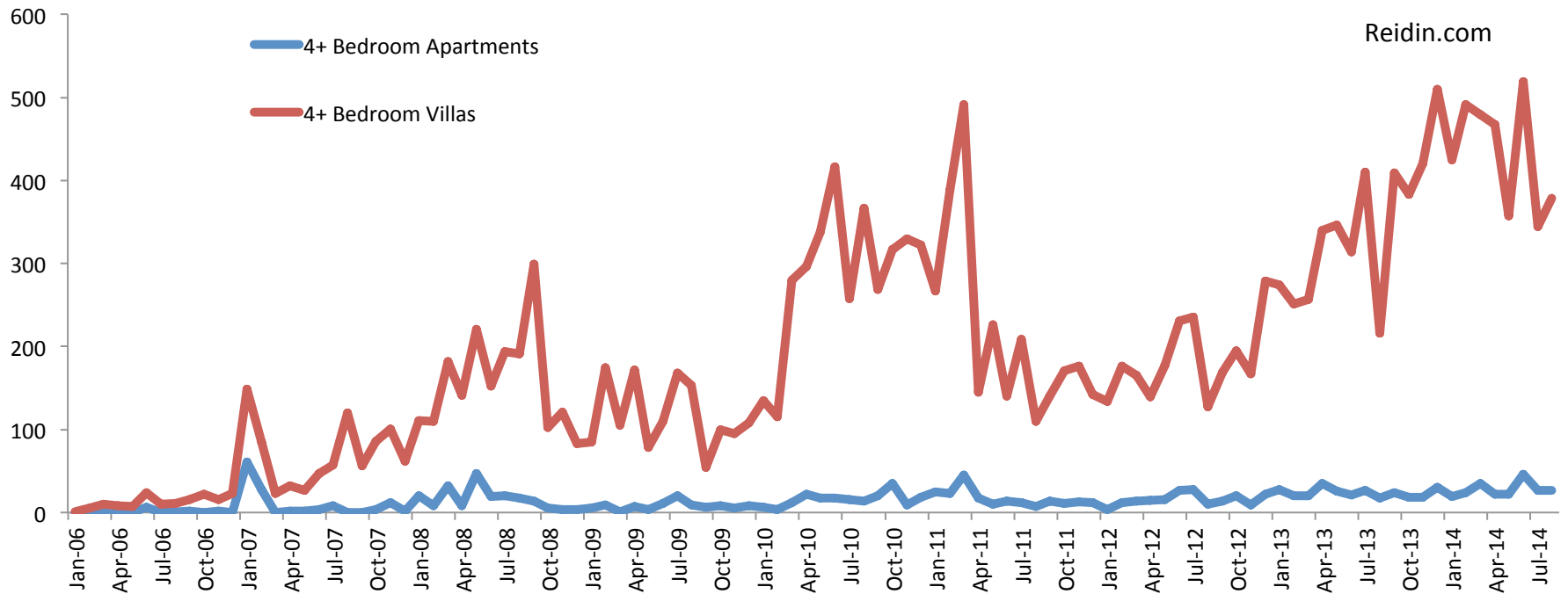
“The ache for home lives in all of us. The safe place where we can go as we are and not be questioned.” -  
Maya Angelou

# A Closer Look at Home Ownership – Villas vs. Apartments



The above chart depicts the total number of mortgages in monitored areas by unit type in apartments and villas from 2006. As we can see that 2 bedrooms is the most popular choice for end-users in the apartment segment, whereas home-occupiers prefer larger units (3 bedrooms and more) in the villa segment. This is the strongest indicator of the home ownership hypothesis as the market matures and gravitates towards more developed markets in terms of buying patterns.

## The Cross Over of the 4+ bedroom Segment from Apartments to Villas for Homeownership



There is a clearly a higher demand for four bedroom villas compared to apartments as a destination for end-user occupiers. A time series analysis shows that 4 bedrooms villas have continued to trend upwards over the last 8 years, where as apartment have remained flat-lined. This highlights the buying attitude of the end-user demographics of Dubai, skewing them towards horizontal living in this space.

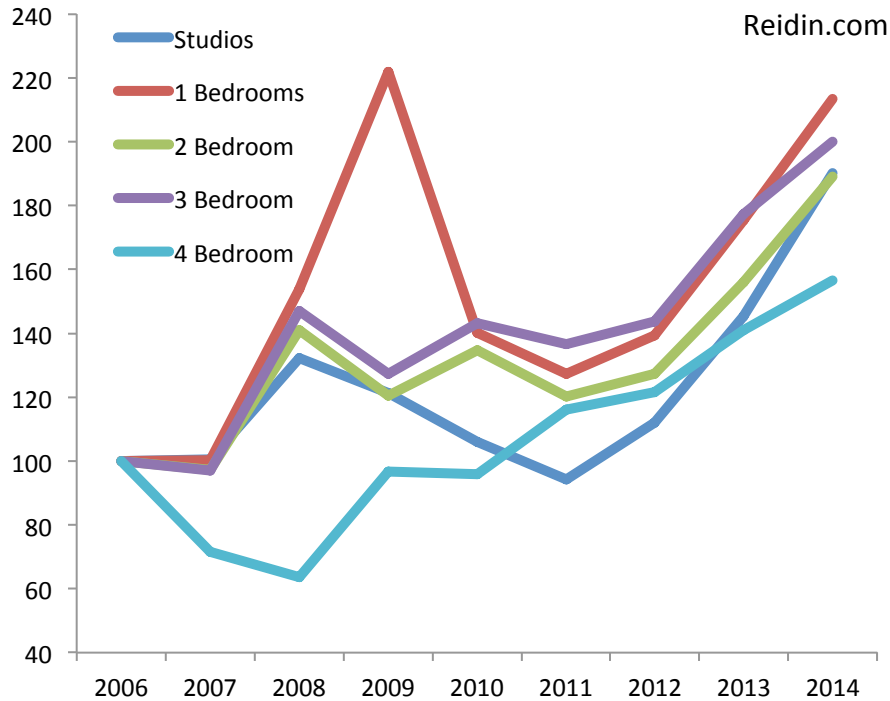
# Unit-wise Price Analysis



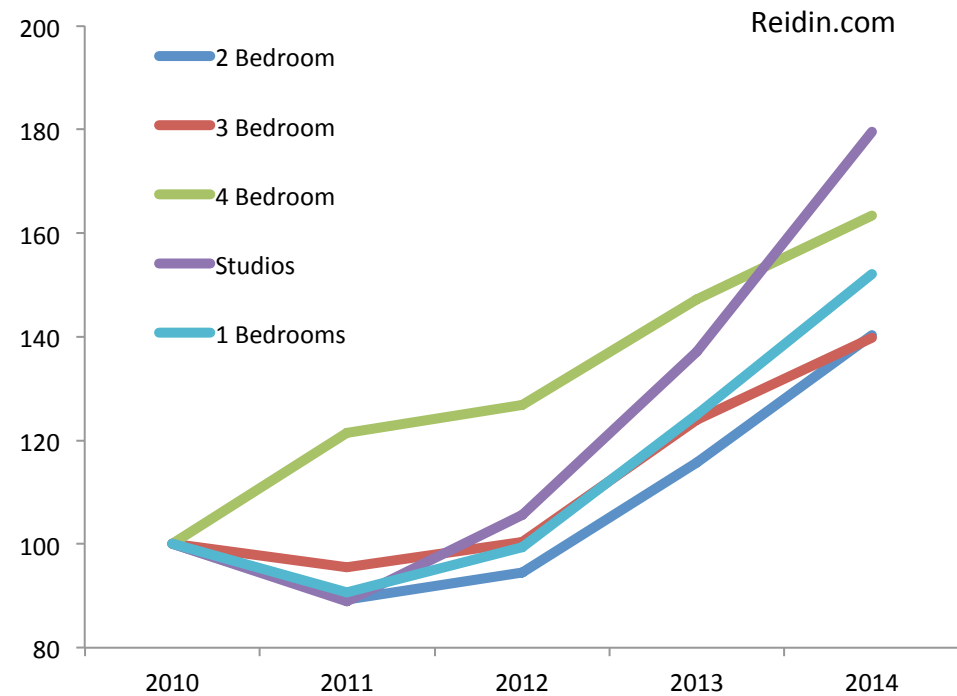
“A people without the knowledge of their past history, origin and culture is like a tree without roots” -  
Marcus Garvey

# One-Bedrooms and Studios Best Performer in Apartments

Price Index (2006 – Till Date)

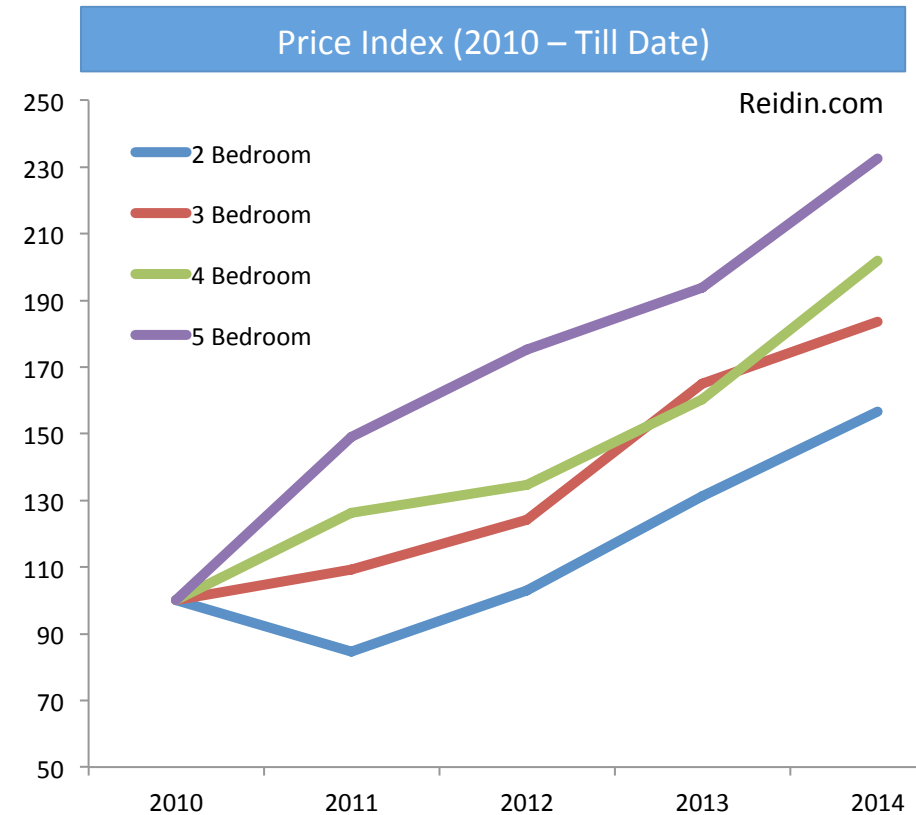
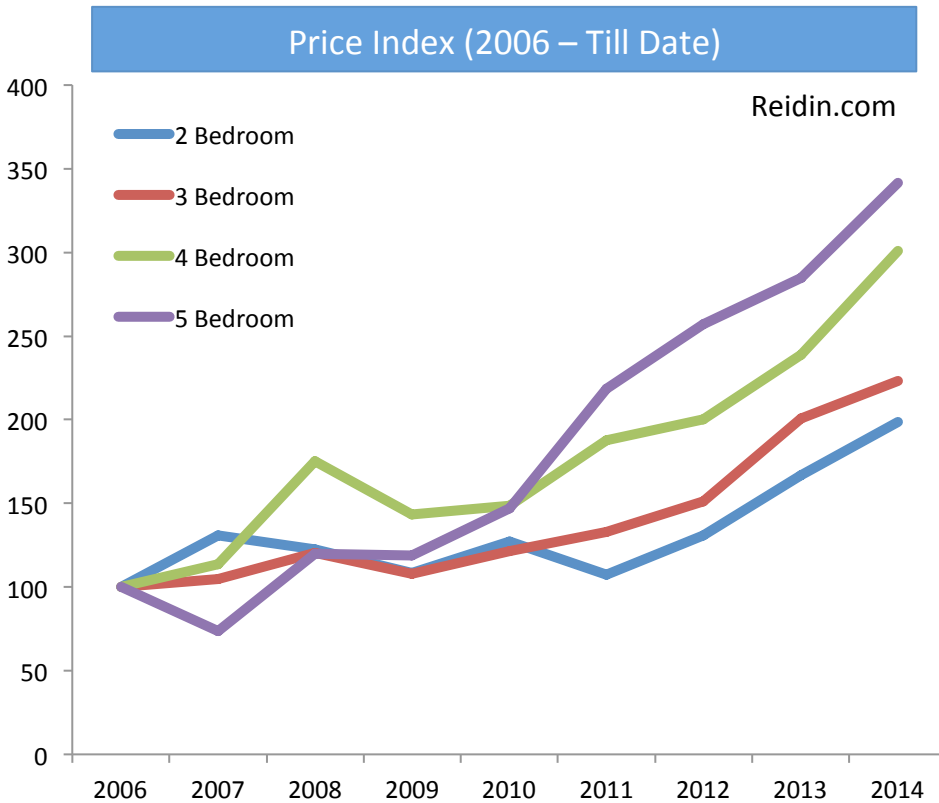


Price Index (2010 – Till Date)



A city-wide price analysis segmented by unit type, shows that 1 bedrooms have appreciated the most followed by three bedrooms over an 8 year horizon. This is coherent with transactional activity as One bedrooms has had the highest frequency of transactions with this time period. However, over a four year time period this trend has shifted, where studios and four bedrooms have out-performed the market. However, the graph also reveals a shift in the buying patterns as end users start to dominate, moving towards the two bedroom space. In this sense, the mortgage activity in the 2 bedroom and higher space is an indicator of increased price outperform in this segment going forward as the structure of the market changes.

# While Five-Bedrooms are the Best Performer in the Villa Segment



In the villa segment 5 bedrooms have out-performed the market consistently in the last 8 years, giving credence to the trophy buying phenomena within this asset class. Communities such as Palm Jumeirah Villas, Emirates Hills have historically appreciated faster than any other community.

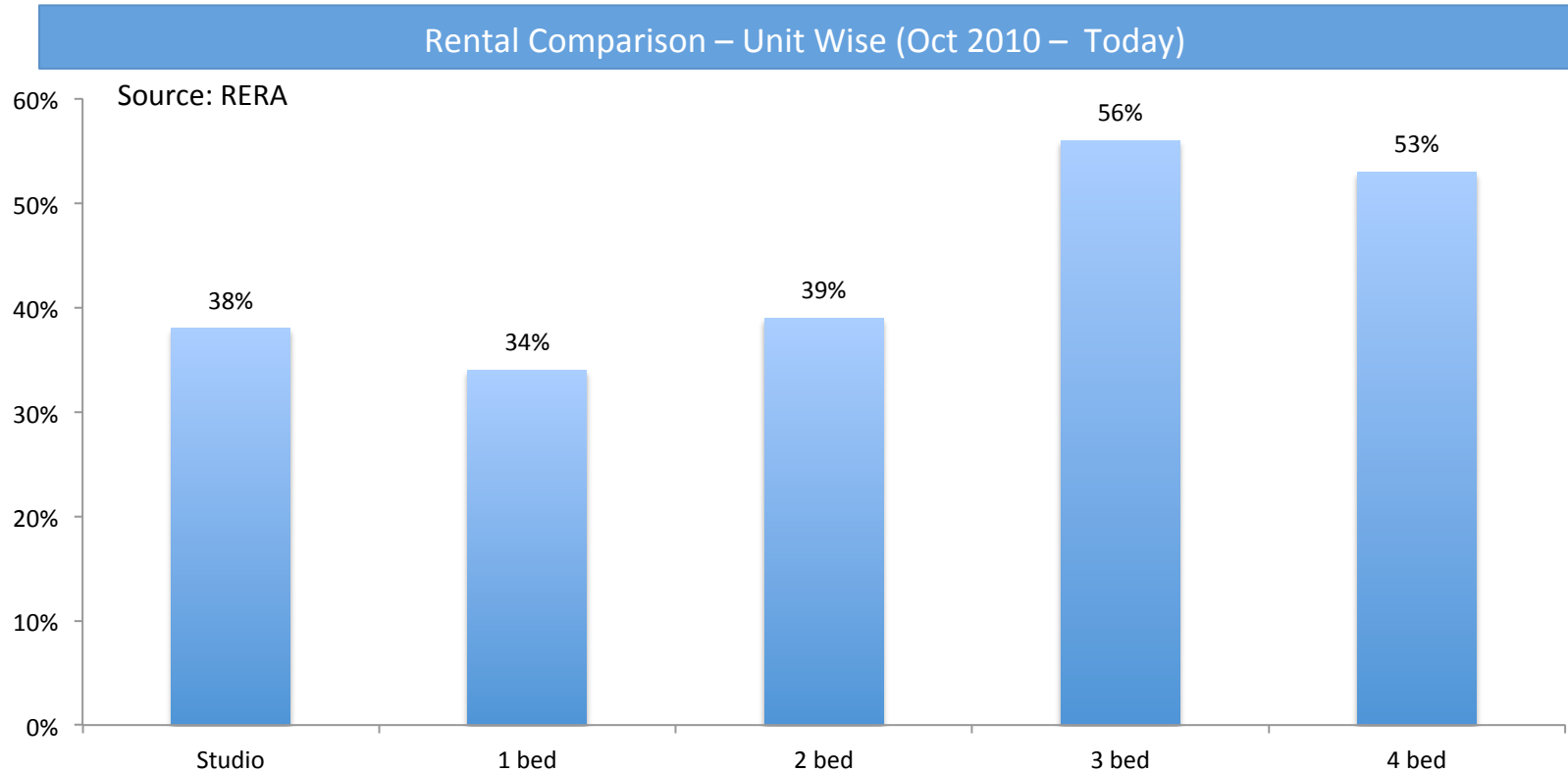


# Rent Convergence



When monthly rent payments are less than the total carrying costs for owning a home, then it is more economical to rent than to own

# The Convergence of Rents



The above table shows a comparison of the average RERA Index from Oct 2010 to date. We can see that the three bedroom space has incurred the highest growth rate followed by four bedrooms. This highlights the need for larger units as family become a core demand driver, also explaining the upward trend in mortgage activity within this segment.

# The Rental Index Comparison

% Change of RERA Index (OCT 2010 - TODAY)						
	Studio	1 bed	2 bed	3 bed	4 bed	Average
<b>Greens</b>	33%	23%	33%	40%	-	<b>33%</b>
<b>Marina</b>	32%	45%	63%	54%	57%	<b>50%</b>
<b>International City</b>	44%	23%	18%	-	-	<b>28%</b>
<b>Palm Jumeirah</b>	-	41%	43%	44%	-	<b>43%</b>
<b>JLT</b>	63%	38%	59%	69%	63%	<b>58%</b>
<b>Discovery Gardens</b>	31%	20%	6%	-	-	<b>19%</b>
<b>DSO</b>	36%	38%	35%	-	-	<b>36%</b>
<b>IMPZ</b>	8%	24%	17%	-	-	<b>16%</b>
<b>JVC</b>	60%	69%	72%	74%	64%	<b>68%</b>
<b>Motor City</b>	33%	23%	43%	44%	-	<b>36%</b>
<b>Average</b>	<b>38%</b>	<b>34%</b>	<b>39%</b>	<b>54%</b>	<b>61%</b>	

Source: RERA

A community wise comparison shows that the largest rental increase has been in JVC (68%) followed by JLT (58%) and Marina (50%). These rapid increases in rents are leading buyers to mortgage rather than rent as it indicates paucity in supply, further validating the trend seen of higher mortgage activity in the 2 bedroom+ space in apartments and the 4 bedroom+ space in villas.

# Conclusions

*There is a clearly a higher demand for four+ bedroom villas compared to apartments as a destination for end-user occupiers*

*In the villa segment, five bedrooms have out-performed the market consistently in the last 8 years, giving credence to the trophy buying phenomena within this asset class.*

## Transactional Activity

An YoY analysis of transactional activity, shows a 50% fall from the peak indicating a decline in speculative activity. However, mortgages continue to trend higher, implying a stronger owner-occupier base.

A city-wide analysis shows that within apartment cash transactions studios, one and two bedrooms are most popular. Where as for villas three, four and five bedrooms are the most cash bought properties.

## Price Trends

A unit-wise price analysis shows that within villas 5 bedrooms have consistently outperformed other unit types over an 8 year horizon. We expect this trend to continue as mortgages for this niche ratchet higher

Whereas in the apartment segment, historically 1 bedrooms have outperformed, but in the last four year we have seen studio with the highest price growth. With higher levels of mortgage activity in the 2 bedroom space we expect these units to outperform in the medium term

## The Crossover

A unit-wise mortgage analysis shows that in the last 8 years, two bedrooms have had the highest number of mortgages in the apartment segment, while 4 bedroom plus in villas

A comparison between the mortgages of four bedroom units between villas and apartments shows a clear preference by end-user for villas. Mortgages for 4 bedroom+ villas have doubled in the last 4 years, while the same unit in apartments have remained flat.

## Rent Convergence

A comparison of the Rera Index from Aug 2010 till date, shows the largest increase has been in the four and five bedrooms segment.

This validates the latent demand that is present in the market for larger spaced accommodation. Recent rent rises reinforce the trend of renters becoming owner-occupiers



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Indigo Icon, 1708  
Jumeirah Lake Towers,  
PO Box 500231 Dubai,  
United Arab Emirates  
Tel. +971 4 447 72 20  
Fax. +9714 447 72 21  
[www.globalcappartners.com](http://www.globalcappartners.com)  
[info@gcp-properties.com](mailto:info@gcp-properties.com)



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Concord Tower, No: 2304,  
Dubai Media City,  
PO Box 333929 Dubai,  
United Arab Emirates  
Tel. +971 4 433 13 98  
Fax. +971 4 360 47 88  
[www.reidin.com](http://www.reidin.com)  
[info@reidin.com](mailto:info@reidin.com)

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