

STRICTLY CONFIDENTIAL



## Dubai: The Hunt for Yields'

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# Executive Summary

- As real estate asset prices have stabilized and started to trend lower in certain areas, Dubai has entered the 'new normal', with investors beginning to hunt for stable rental returns. Historically, the greatest price appreciation has been in the larger bedroom sizes (such as the 3 bed rooms) giving credence to the trophy buying phenomena. However, as prices begin to stabilize, a price growth compression begins within the unit sizes. In addition, in the last year we have seen a strong rally in price growth of mid-income communities, compared to trophy properties, which historically has not been the case.
- An analysis of the rental yields by unit sizes across monitored areas shows an inverse relationship between unit size and yields; the higher the unit size, the lower the yields. This trend is empirically observed in most real estate markets; market trends recently indicate that investor buying pattern are changing to account for the larger sizes as owner-occupiers become a more prominent force in the market.
- A comparison between the price and rental growth rates reveals that prices have outperformed in the last four years by 15%, resulting in a yield compression across the board. The two bedroom has the least gap between the rent and growth growth, whereas studios has the largest. This indicates that the latter appears to be an out priced size across the board, and investors and developers alike will under perform catering to this area.
- We opine that as the market matures, the demand for the 2 and 3 bedroom space will be larger relative to historical norms, mimicking trends in other developed economies; the supply trajectory will need to adjust accordingly; in the interim period it is likely that this segment for the market will outperform other areas

# Table of Contents

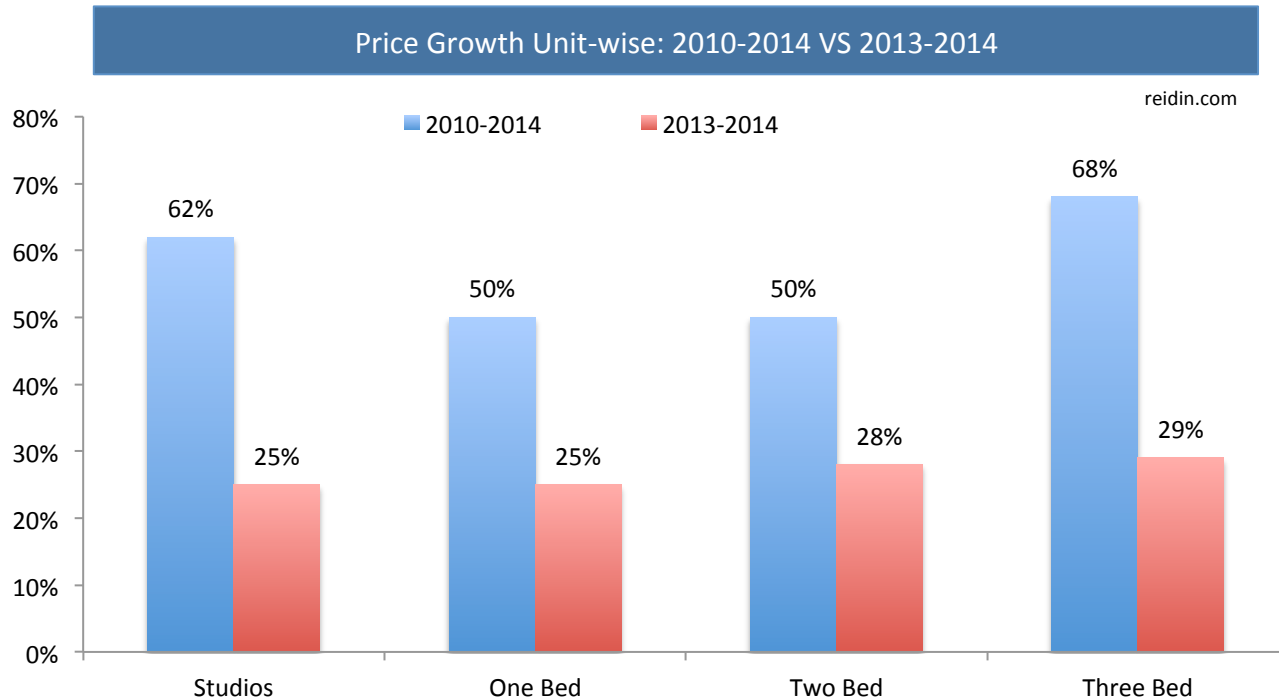
A)	Price Appreciation Unit-wise by Community.....	4
B)	Hunt for Yields .....	9
C)	Prices Versus Rents .....	13
D)	Conclusions.....	18

## Price Appreciation: Unit-wise by Community



“Wide diversification is only required when investors do not understand what they are doing” -  
Warren Buffett

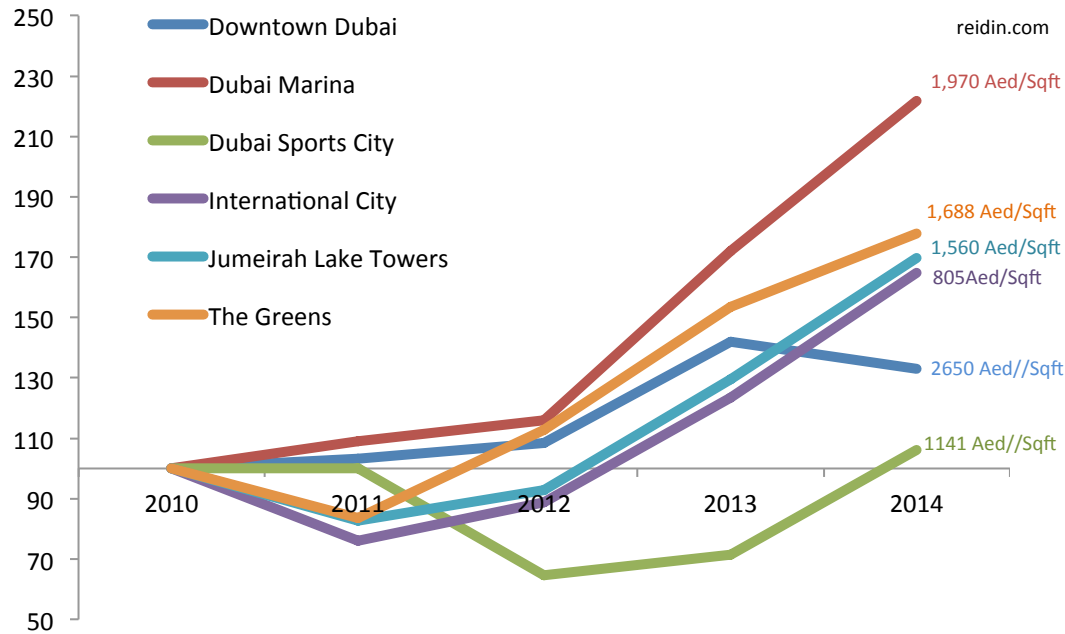
# Price Appreciation by Unit Size



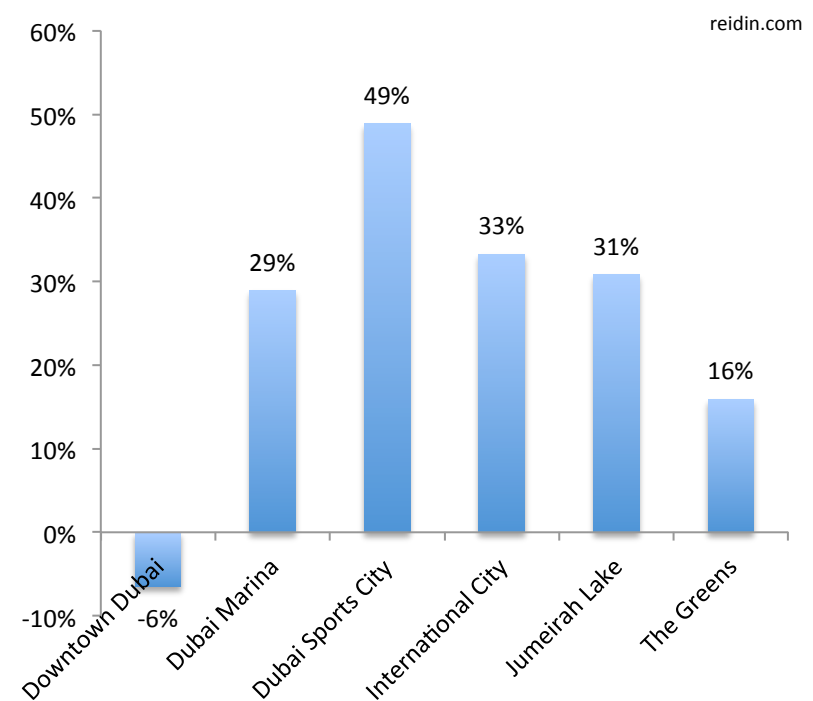
A comparison between growth rates highlights that historically studios and three bedrooms have appreciated the highest followed by one and two bedrooms. However, in the last year the larger size units have begun to out perform showcasing the demand driven by owner-occupiers.

# Studios: Historically Dubai Marina has Been the best Performer

Studios: Community-wise Price Appreciation Index (2010-Till Date)



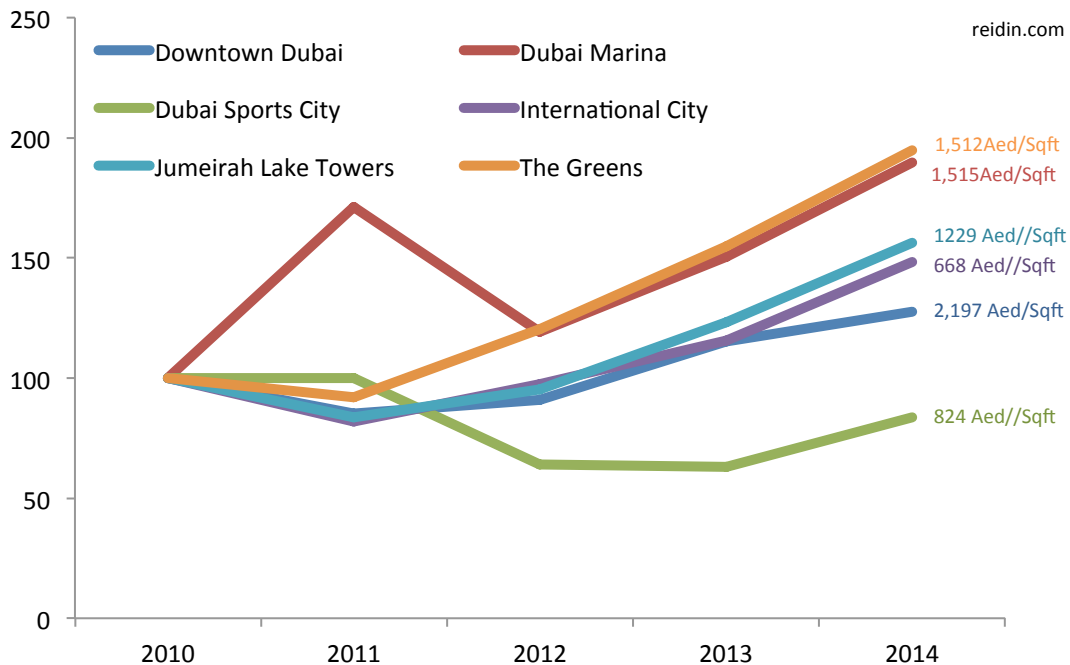
Studios: Community-wise Price Appreciation YoY



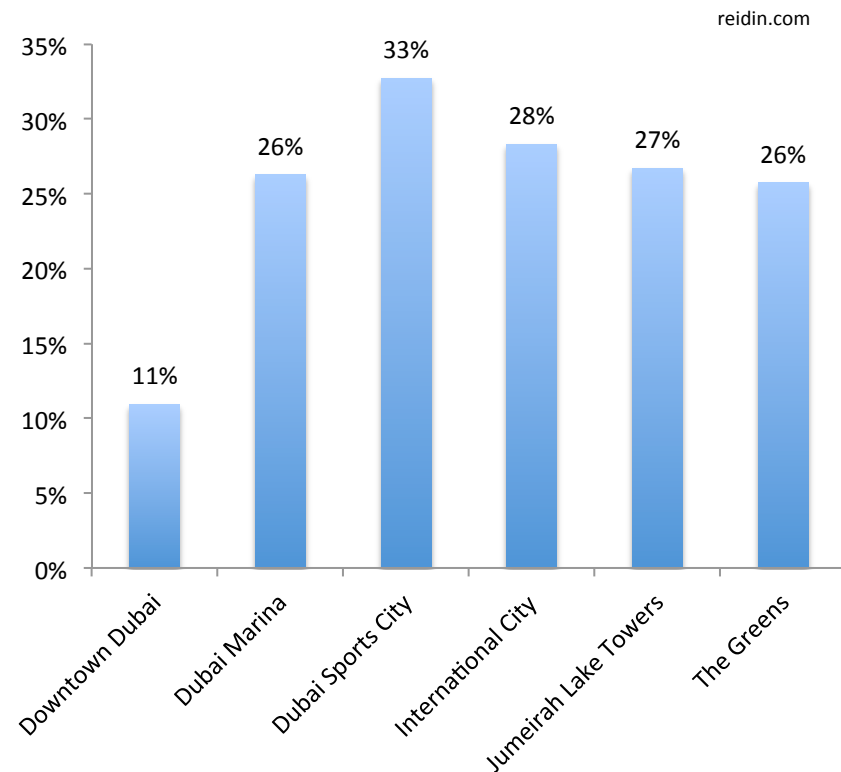
Within the studio space, we can see that in the past Marina has been best performer, escalating prices to 1,970 aed/sqft. However, in the last year we have seen the highest increase in the mid-income housing segment led by Sports City and International City. Within the trophy property segment such as Downtown, prices have registered a dip of 6%. Price convergence between JLT and Greens indicate that investors are indifferent between the two communities; the outperformance of the mid income communities is reflective of the fact that the hunt for yields is already underway

# One Bedrooms: Dubai Marina Redux!

One Bed: Community-wise Price Appreciation Index (2010-Till Date)



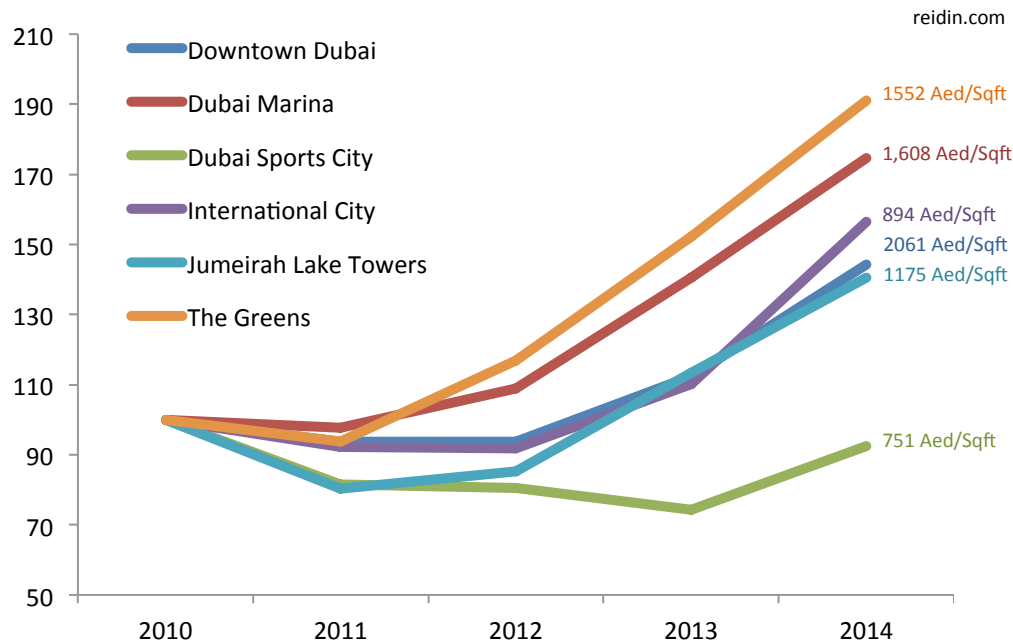
One Bed: Community-wise Price Appreciation YoY



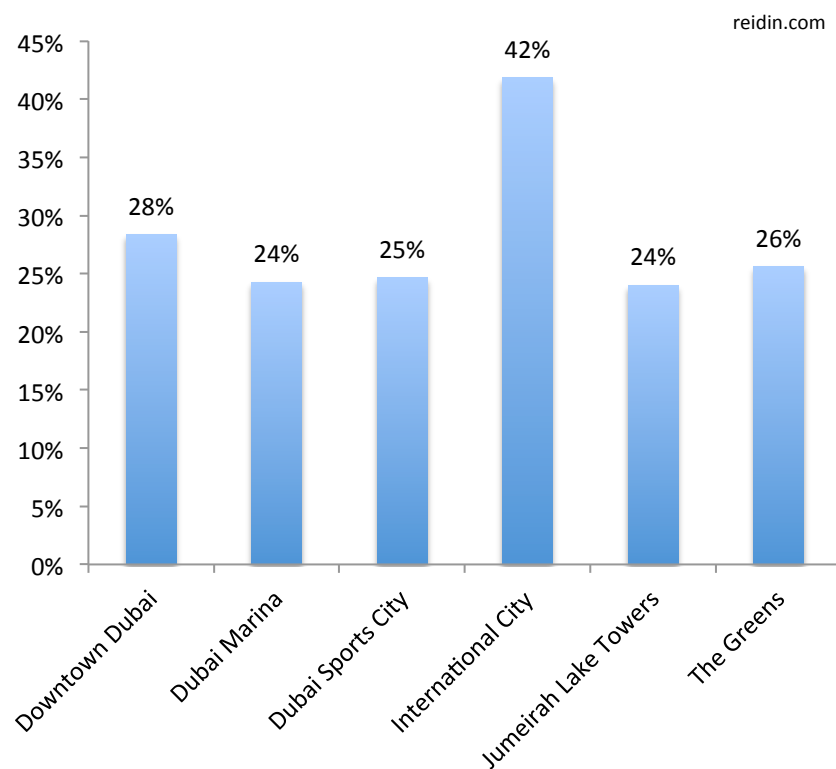
Similar trends are being seen within the one-bedroom segment, where mid-income communities (using Sports City as proxy) have outperformed Trophy properties (using Downtown as a proxy) by a factor of 3.. We expect this trend to continue, especially in the larger units, as Dubai's population gravitates towards an end-user base. Marina price points in this segment suggests possible overshooting to the upside and with communities such as Creek Harbor being unveiled, augur a period of subdued performance ahead.

# Two Bedrooms: Greens reigns supreme for mid tier families

Two Bed: Community-wise Price Appreciation Index (2010-Till Date)



Two Bed: Community-wise Price Appreciation YoY

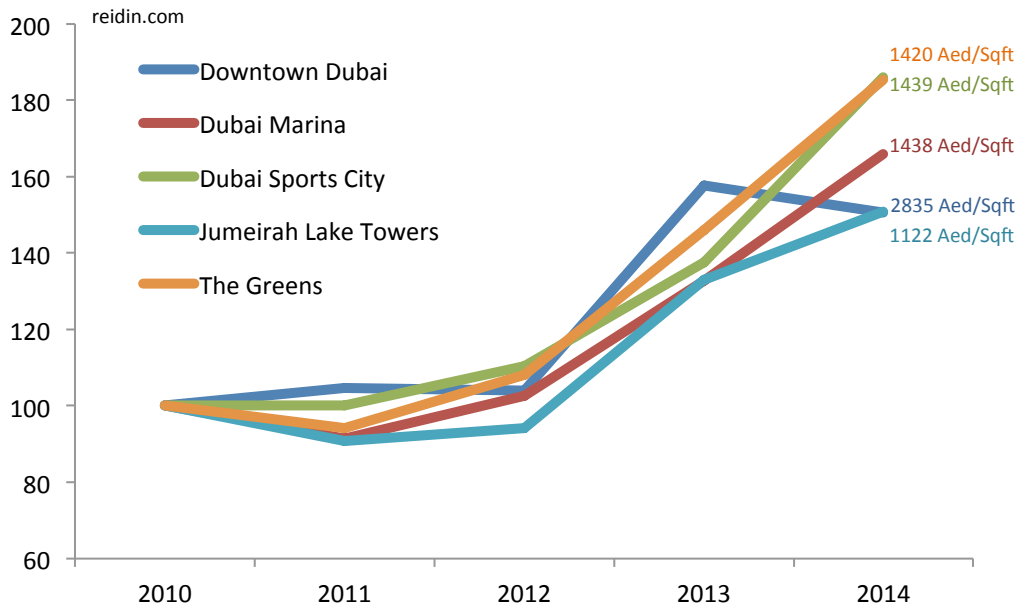


In the two bedroom segment International City has been the leader in price growth, which historically has been led by the Greens. It is pertinent to note here that there is near price convergence between the Greens and Marina in this segment, indicating that perhaps both communities will see subdued growth as buyer preference shifts to the more economical areas such as JLT, Sports City and International City.

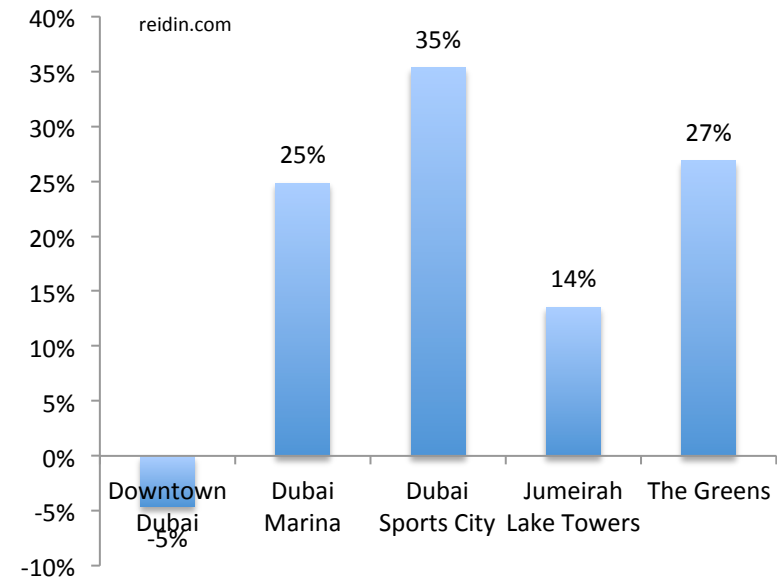


# Three Bedrooms: Investors indifferent between JLT, Greens and Marina!

Three Bed: Community-wise Price Appreciation Index (2010-Till Date)



Three Bed: Community-wise Price Appreciation YoY



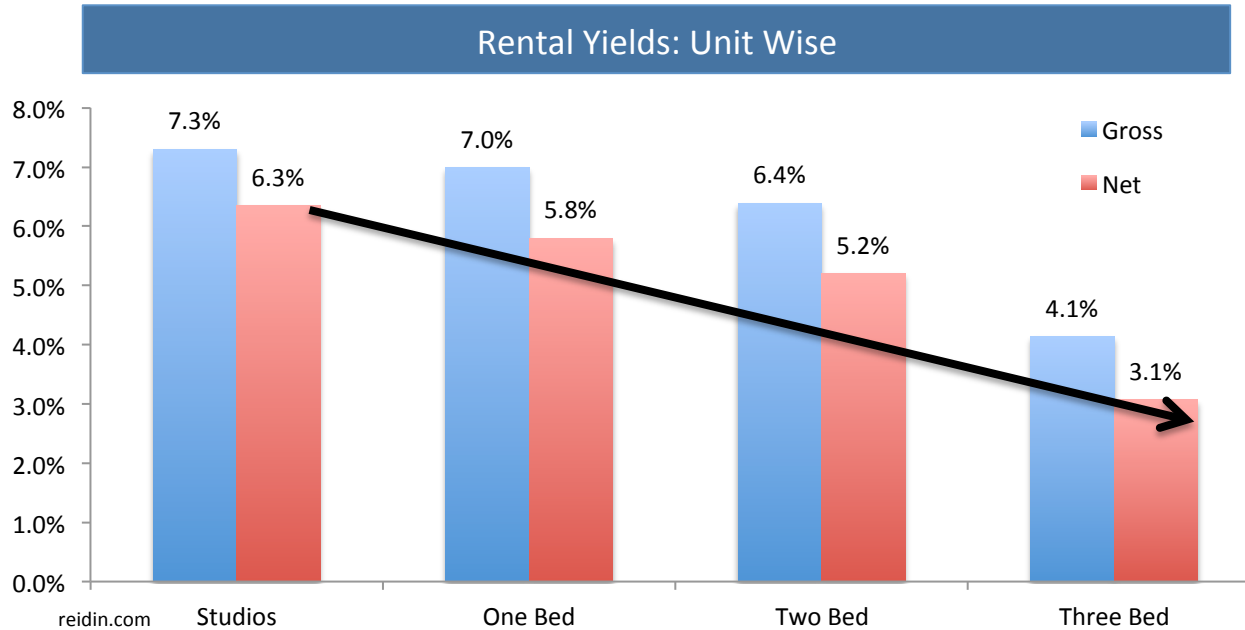
Within the three bedroom segment, we can see that mid-income communities continue to gather momentum, highlighting the shortage of affordable housing within this niche. Price convergence between JLT, Marina and the Greens in this segment is indicative of the overall lack of supply in this segment.

# The Hunt for Yields



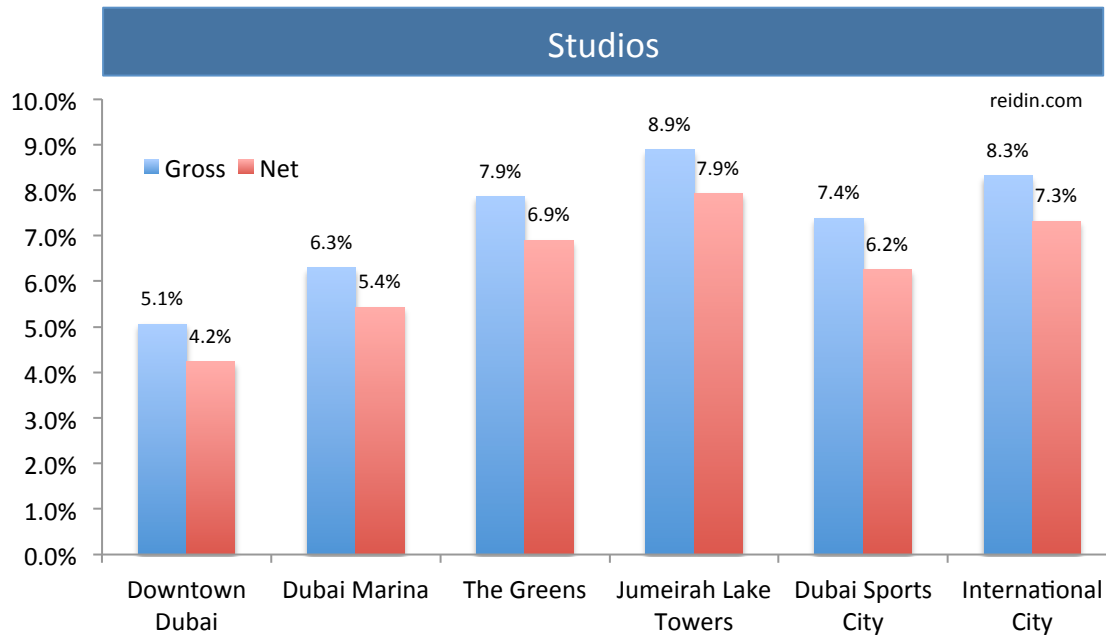
“Great things are not accomplished by those who yield to trends and fads and popular opinion.”  
- Jack Kerouac

# The Hunt for Yields in Apartments

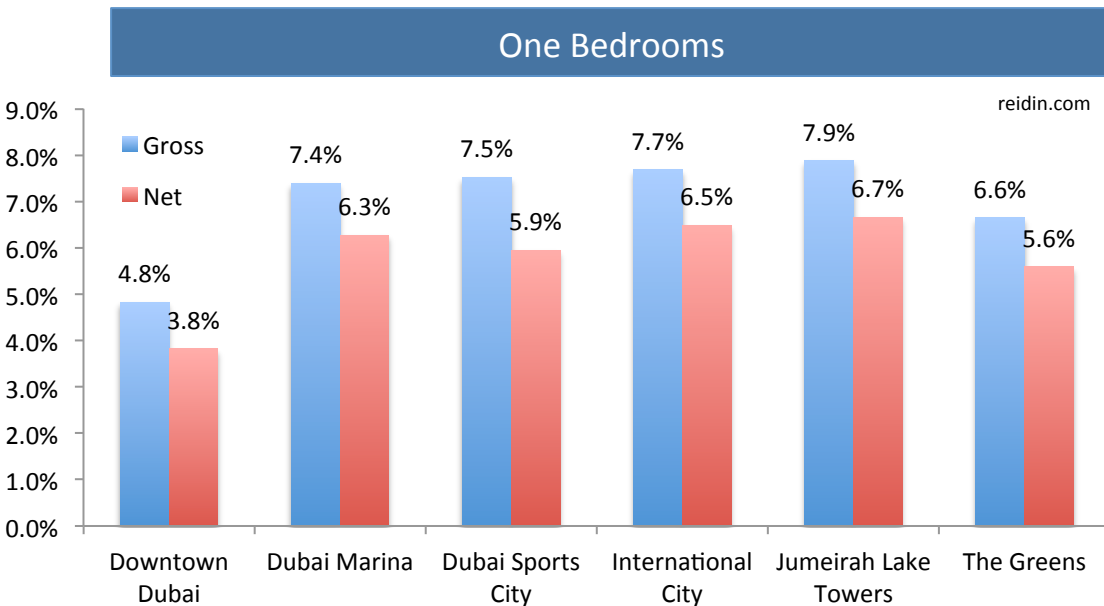


A unit-wise study of rental yields shows an inverse relationship between the size and return, where the smallest unit yields the highest return. Studios net return is more than double to that of three bedrooms. However, within the studios, one bedroom, and two bedroom the gap is minimal of only 15%, making them all a strong income generator.

# Community wise segmentation analysis

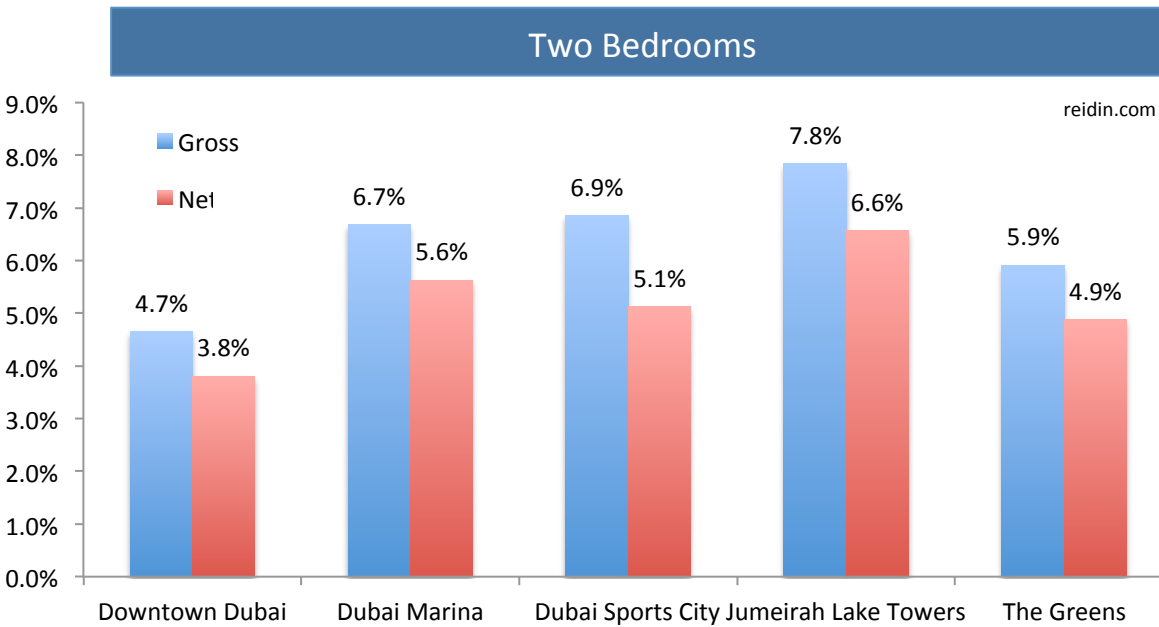


JLT, followed closely by international city appears to be the highest yielding assets in this segment size, indicating not only tenant preference for these areas but more importantly highlighting the stratification of market and income segments; the mid and upper mid income class prefer JLT, whereas the budget conscious tenants prefer the International City Community. Higher income communities such as Dubai Marina and Downtown appear to be offering the lowest income generating options.

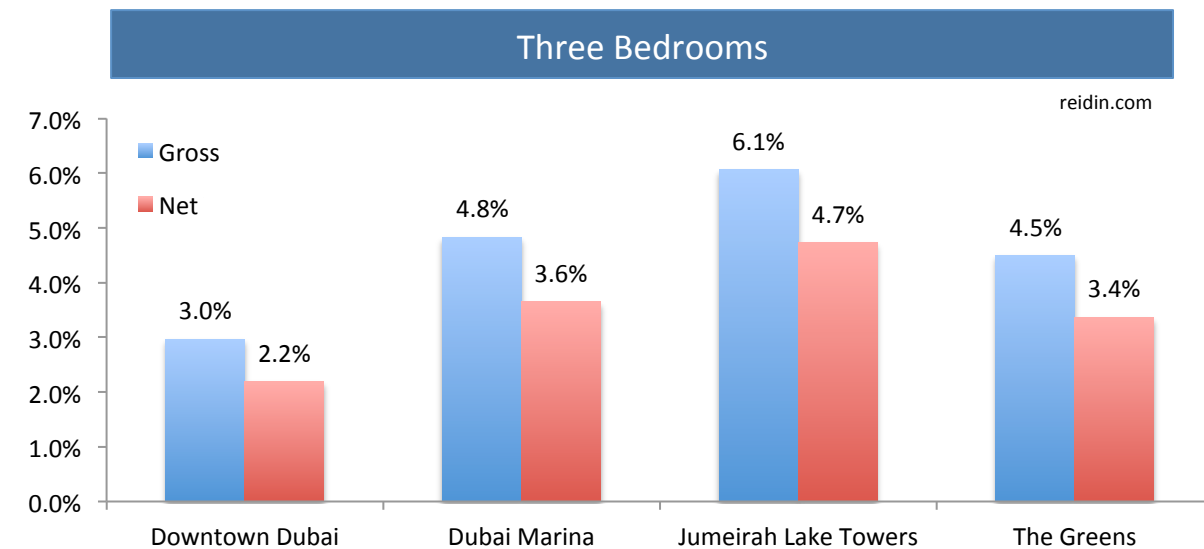


In the one bedroom segment, similar trends are being witnessed. Besides JLT, we can that the mid-income communities such as Sports City and International City yield similar returns. As communities such as Marina and JLT become unaffordable, the migratory effect (currently underway) is expected to accelerate towards the MBZ corridor leading us to conclude that the latter will continue to have strong price outperformance.

# As yields drop, JLT remains the preferred income generator



A granular analysis of the two and three bed room space segment reveals an underlying preference for JLT, indicating not only the fact that the latter had surplus capacity that has been steadily absorbed in the last three years, but also that rents have risen faster than prices in this area, accounting for the superior yield



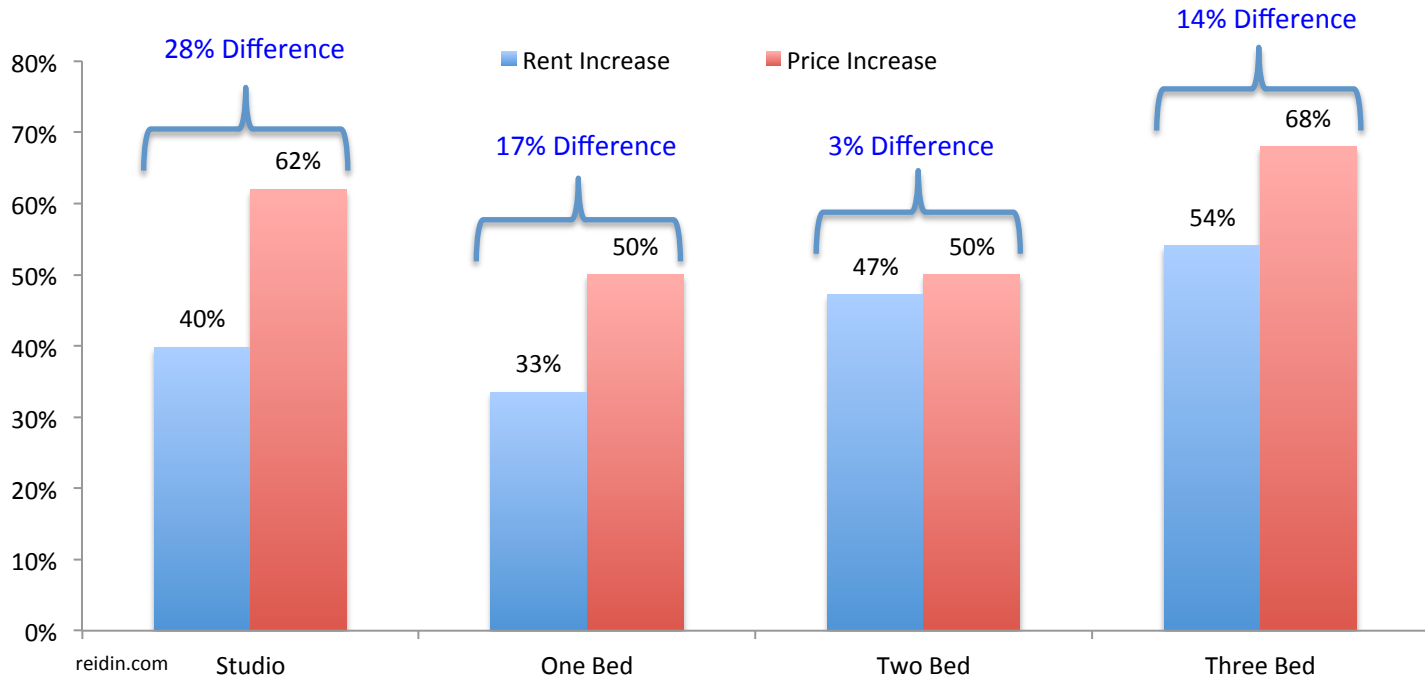
As expected, the yields in Downtown are consistently the lowest in this space, with JLT being the highest for many of the same reasons (capitalizing on the lack of legacy rent) and qualitative factors such as an improvement in the infrastructure of the community. What is missing here are mid income communities such as Sports City, JVC and others in the MBX corridor and we expect tenants to gravitate to that spectrum as options become available in this space segment.

## Prices Versus Rents



"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."  
- Robert G. Allen

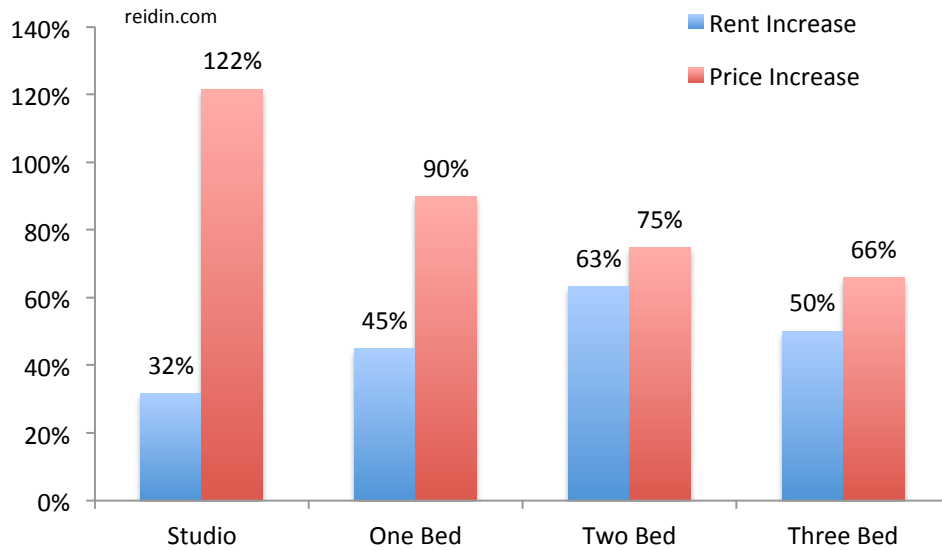
## Prices Outpace Rents in the last 4 years



Across the board, prices have outperformed rents in the last four years, with the largest gaps in the studio segment reinforcing the fact that this segment is expected to see subdued price action in the next year. In the 2 bedroom space, price and rents have risen by almost the same amount suggesting no yield compression and given the paucity of supply, this segment is expected to outperform in the coming year.

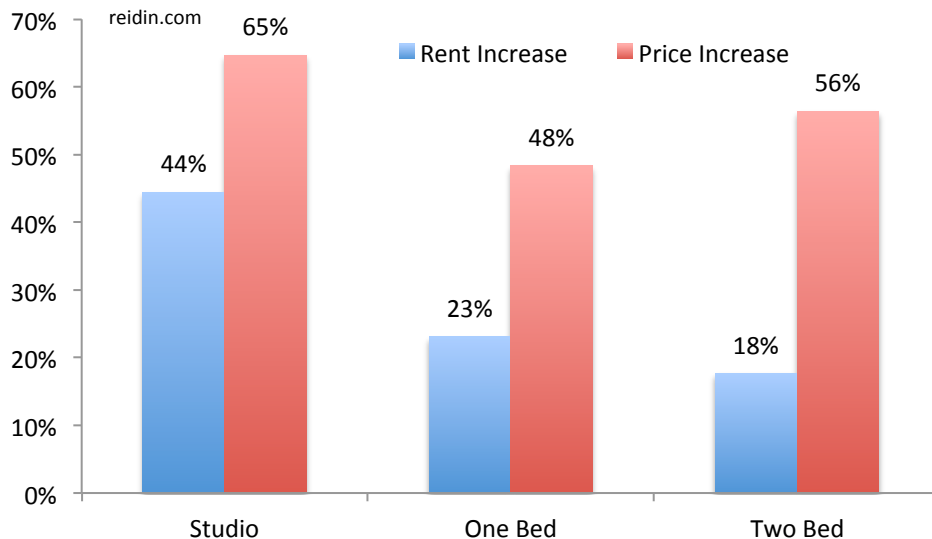
# Rents Versus Prices: Community-wise Analysis

## Dubai Marina



Similar to the Greens, Marina and International City reflect price out performance relative to rents over the last four years as these were high occupied communities and have had restricted rental growth on account of RERA rental regulations of particular interest is that the outperformance has been highest in the studio segment in both communities, suggesting that yield compression has been the highest in these size segments

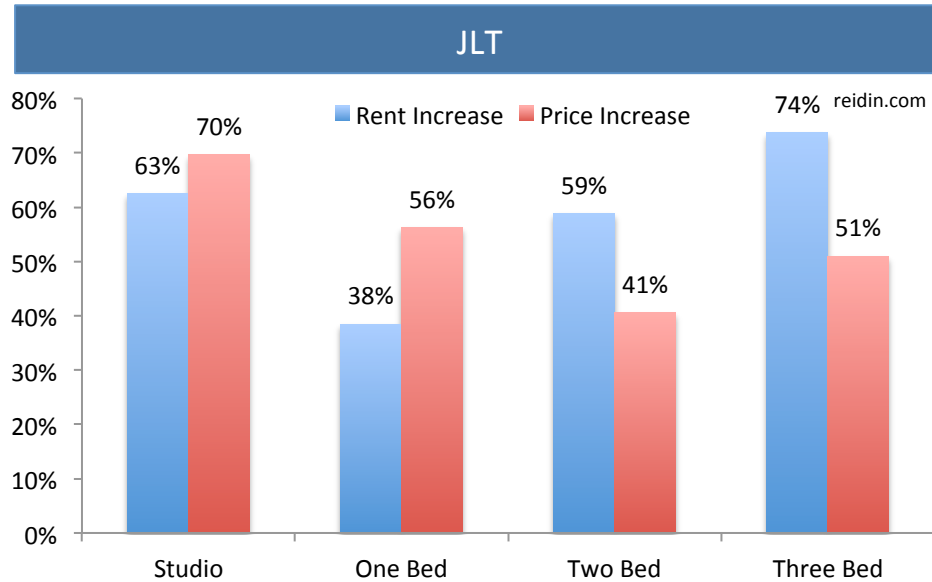
## International City



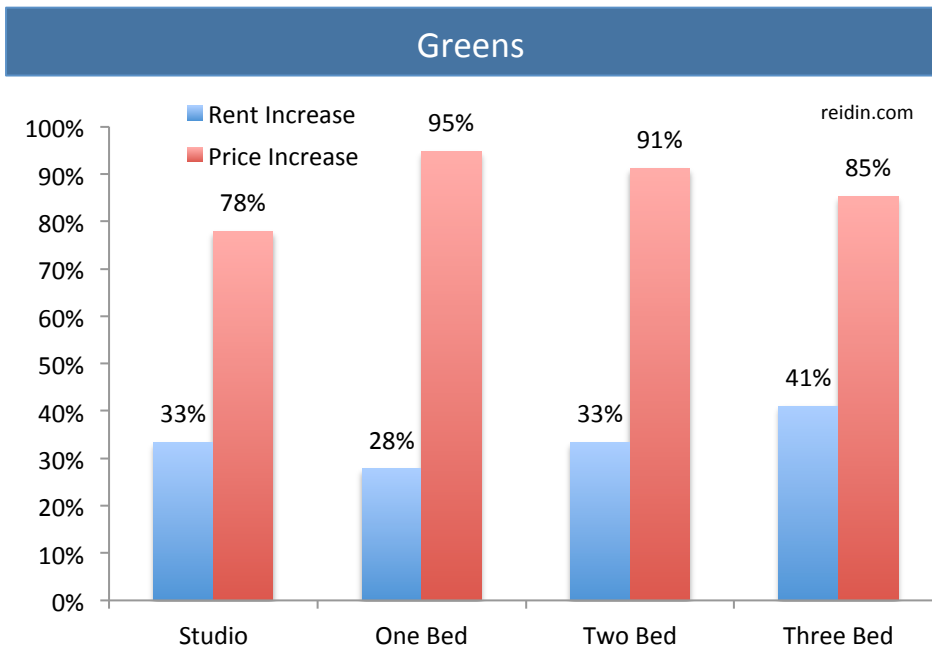
In the mid-income segment, International City has recently witnessed strong demand for the 2 bedroom segment as mid tier families have migrated to areas where the rents have been more affordable, leading to price rises that have surpassed the one bedroom space.



# Rents Versus Prices: Community-wise Analysis

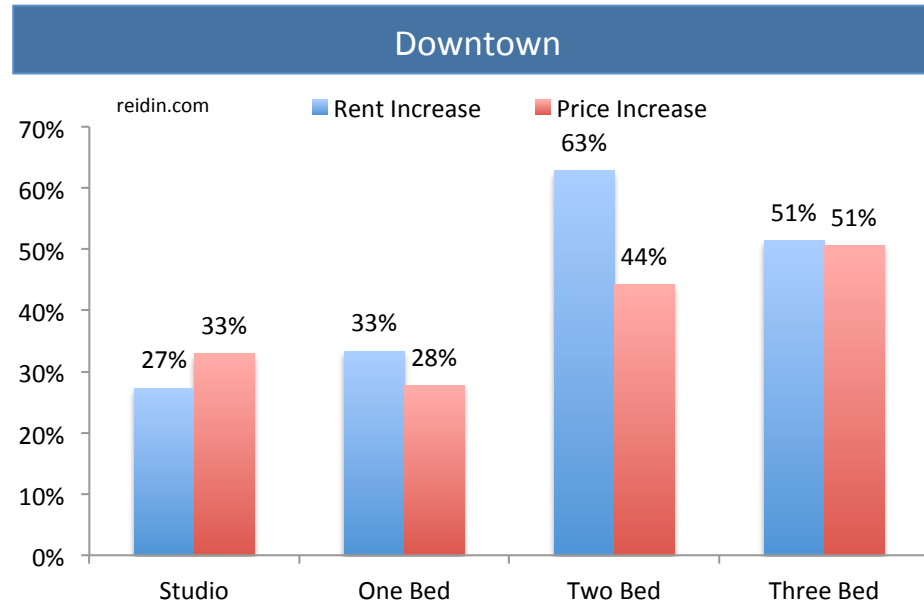


In JLT, rents have outperformed price rises over the past 4 years, reflecting the community's relatively high vacancy rate that have steadily been absorbed over the observed time frame. This is the reason why JLT has been the highest yielding asset, suggesting that as investors look for superior yielding assets, price outperformance in this segment is expected to continue relative to other high income areas.



In the Greens price rises have far outperformed rental rates, highlighting that as the community was already fully occupied, rental caps took their effect. With these caps still in place, price rises are expected to remain subdued for the most part as investors will look towards newer developments to capitalize on higher trending rents in the city.

# Rents Versus Prices: Community-wise Analysis



The Downtown community presents the most dichromatic trend; with rents outperforming price rises in all but the studio segment. This illustrates that given the already elevated nature of prices for this upscale community, rents have kept pace with price appreciation; however as the community has steadily reached full occupancy, rents are expected to grow at lower rates; implying the same for price action as well. With the low rental yields in this community, we opine that price action for the upcoming year will remain subdued.

# Conclusions

*A unit-wise study of rental yields shows an inverse relationship between the size and return, where the smallest unit yields the highest return*

*A comparison between the price and rental growth rates reveals that prices have outperformed in the last four years by 15%, resulting in yield compression across the board*

## Price Appreciation

A segmentation analysis by unit size shows that three-bedrooms and studios have outperformed in the market over the last four years.

As Dubai's population gravitates towards an end-user base, larger unit size are expected to undergo greater price appreciation.

Mid-income communities have out-performed the market across the board in the last year, inverting the historical "trophy" buying phenomenon. This highlights the structural change in Dubai's population and reveals the lack of supply in this segment.

## Price Versus Rents

Across the board, prices have outperformed rents over a four year period; reflecting the impact of rental caps imposed by RERA and resulting in yield compression in most size segments and communities.

This relative outperformance implies that as Dubai enters a period known as the "New Normal", asset prices are expected to underperform and yields are expected to play a higher factor in decision making. It is with this in mind that investors are expected to move towards the MBZ corridor and towards the mid market segments catered to mid tiered families.

## Hunt for Yields

Whilst studios have historically yielded the highest return, the outperformance of prices relative to rental yields augur a period of underperformance.

When recent trends are looked at, the 2 bedroom space appears to be the most likely poised for price outperformance as a trifecta of forces (job creation in the mid tier segment, lack of supply in this space, and overall paucity for this market) agglomerate to create a market that favors this space the most.

In terms of areas, JLT has generated the highest rental yields; as the migratory effect gathers force, this is expected to move towards the MBZ corridor

## Outlook

We expect the demand for the 2 and 3 bedroom space will be larger relative to studios and 1 bedrooms continuing to push prices and rents on an upward trajectory within this segment.

The major beneficiary of this will be mid-income communities such as Sports City, International City, and JVC, as Dubai's population migrates towards affordable housing

As yields push higher within this segment, we expect to see a flurry of new projects in other under developed mid-income communities such as Arjan, Majan, and Liwan as developers rush to maximize margins



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

