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Renter's Ball: The Dynamics of the Tenancy Market in Dubai

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Executive Summary

- Rents and prices have been strongly correlated; recent weaknesses in prices have now filtered into the rental market; we believe that the tenancy sector has entered a period of softening for the medium term
- A dissection of the income distribution of Dubai's working population suggests that a mammoth 84% are tenants (significantly higher than Hong Kong and London) and that income dynamics appear to be mismatched relative to supply dynamics.
- A rental comparison between Prime properties and city-wide properties in Dubai, reveals a 69% rental differential in apartments and 77% in villa communities. An analysis over a 5 year period of both prime and non prime properties have risen in tandem. However, in the last 12 month non-prime properties have had superior growth rates indicating a strong demand for affordable housing confirming the income dynamic mismatch.
- As the migration effect takes hold, MBZ appears to be an increasing destination of choice for new tenants as the level of construction activity gathers pace ahead of the countdown to the world expo 2020. We opine that as destinations for living increase along this corridor, the rental discounts between the MBZ and the sheikh Zayed road corridor will converge.

Table of Contents

- A) Rent and Prices: Follow the Leader

- B) The Purchasing Power of Renters

- C) Apartments Versus Villas

- A) Prime Rentals Versus The Rest of Dubai

- A) Muhammad bin Zayed Road Versus Sheikh Zayed Road

- A) Conclusions

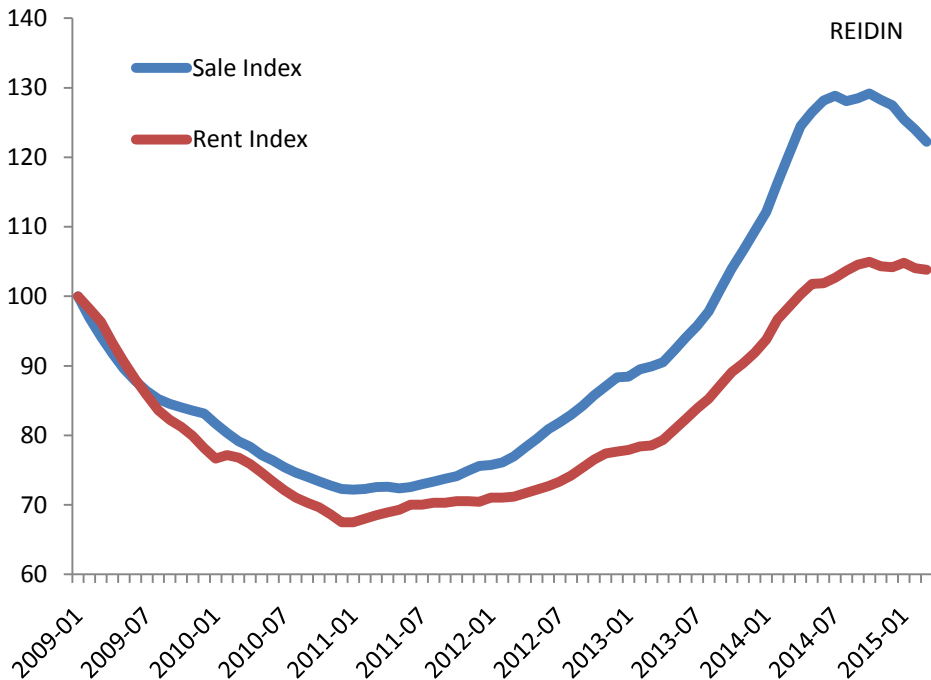
Rents and Prices: Follow the Leader



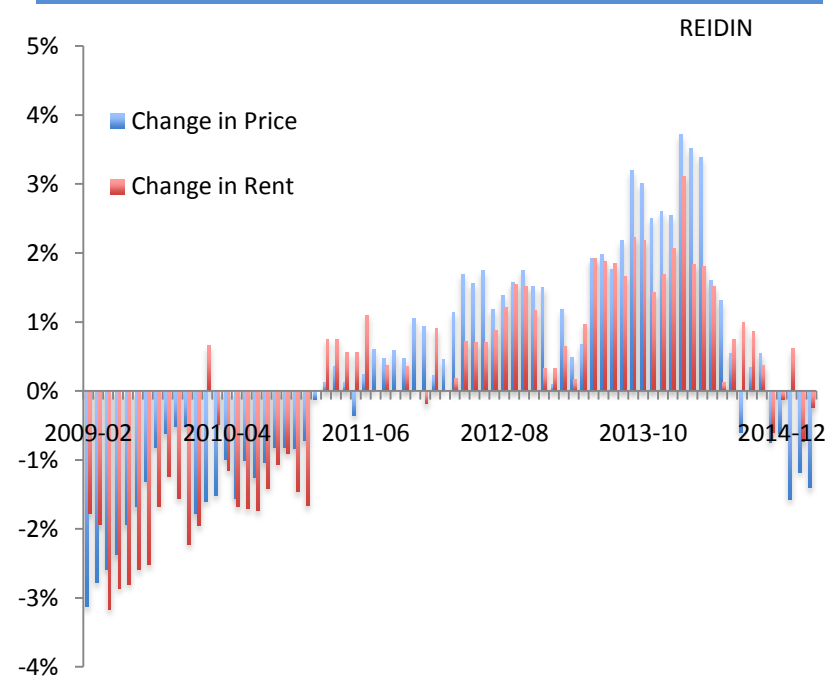
“The Rising tide lifts all boats” – John F Kennedy

Prices are a Leading Indicator for Rent Performance

Sales Vs. Rent Index



Change in Price / Change in Rent



The above charts reveal that there is a strong correlation between sales prices and rents (+0.8). Given the fact that sales prices have plateaued and have dropped from the peak, rents appear to be following suit with a lag of approximately 6 months. This implies that the rental cycle is expected to soften city wide as incremental supply pushes its way through the pipeline.

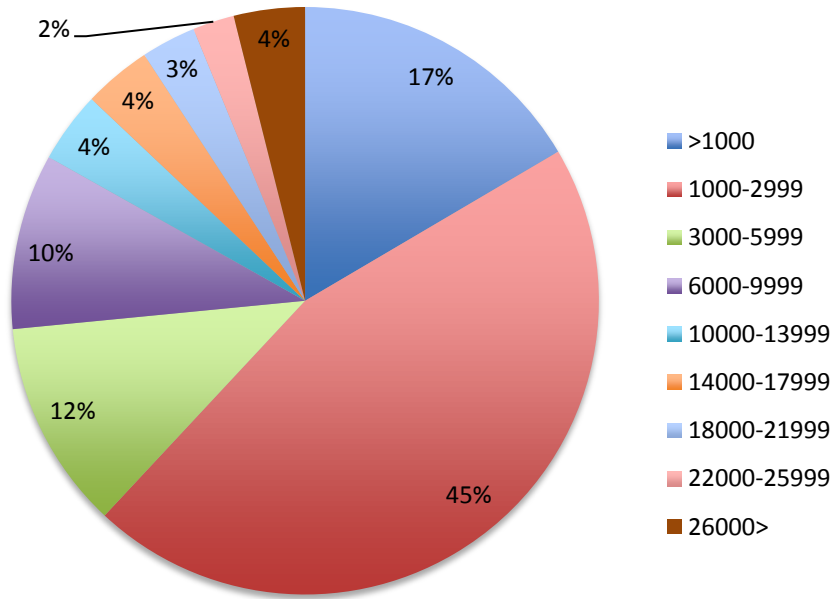
The Purchasing Power of Renters



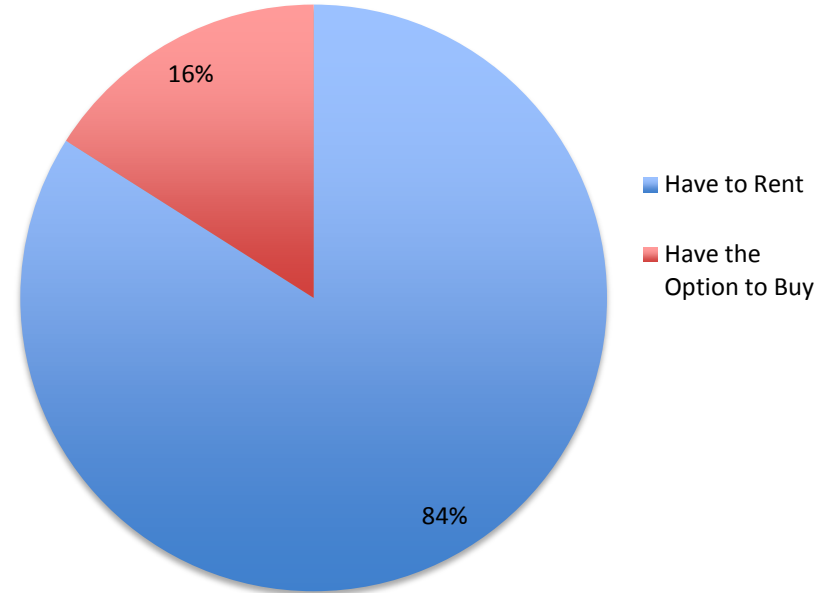
“The price of every thing rises and falls from time to time and place to place; and with every such change the purchasing power of money changes so far as that thing goes” - Alfred Marshall

84% of Dubai Expat Population are Renters

Monthly Salary Range of the Working Population



Buy Vs. Rent

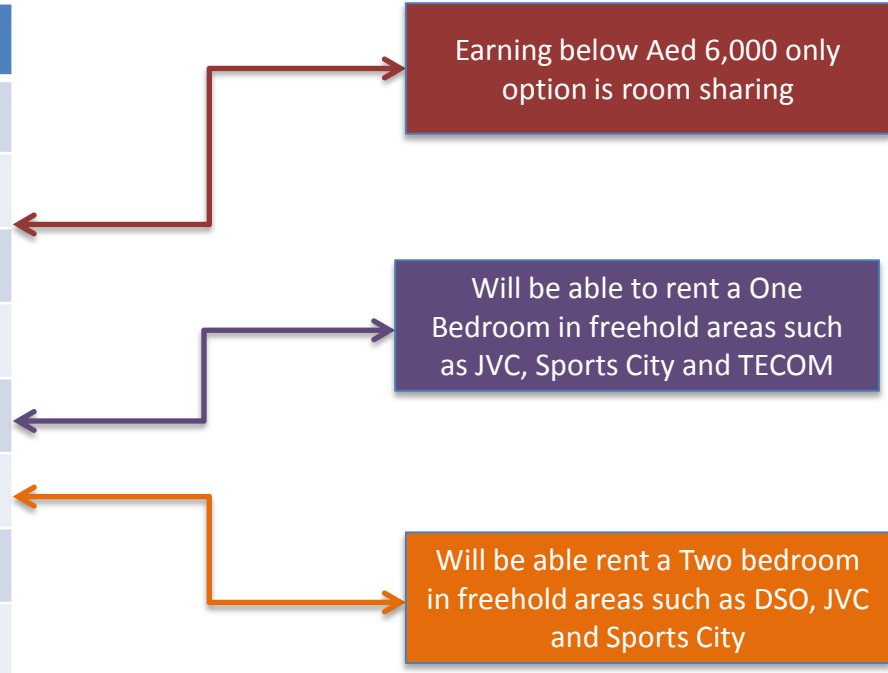


Source: Dubai Statistics Centre

An income distribution dissection of the working population of Dubai reveals a staggering 84% are skewed towards renting, much higher than comparable first world cities (London at 50.4%, Hong Kong 48.8%). Whilst this is partially because freehold ownership is still a relatively new phenomena, it is clear that income distribution levels need to be elevated in order for a wider home ownership base to take place.

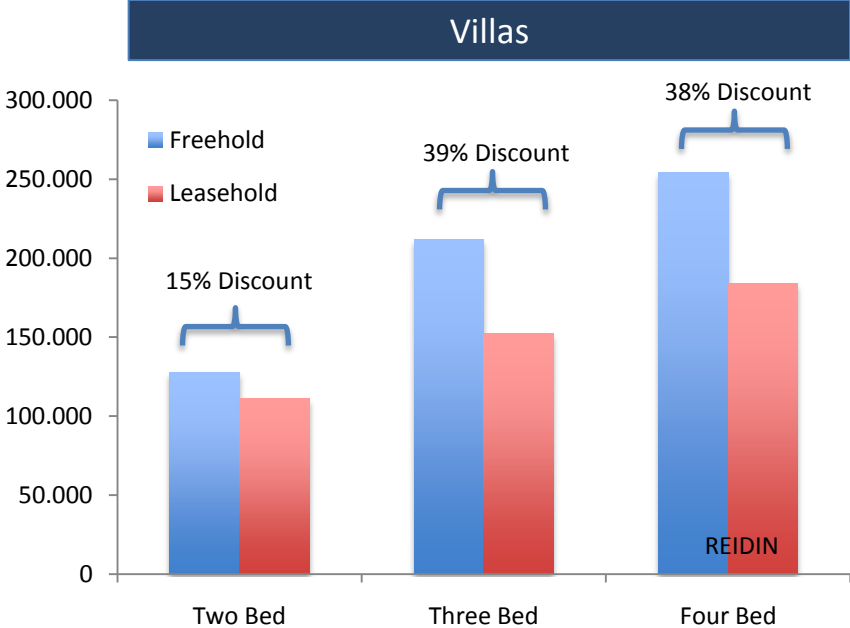
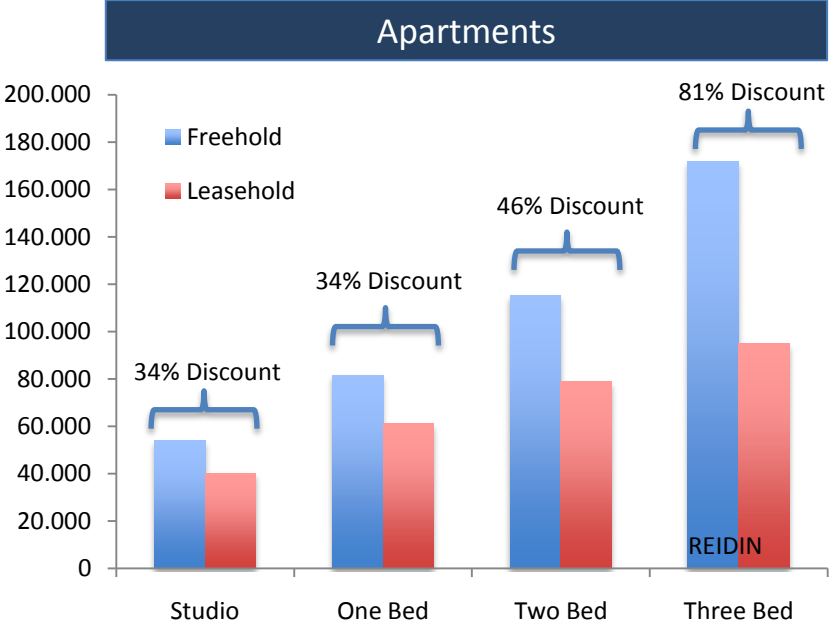
62% of Dubai's Working Population Cant Afford to Rent Units Independently

Ratio	Monthly Salary	Affordability	Population
0.45	1,000	5,400	17%
0.45	3,000	16,200	45%
0.45	6,000	32,400	12%
0.45	10,000	54,000	10%
0.45	14,000	75,600	4%
0.45	18,000	97,200	4%
0.45	22,000	118,800	3%
0.45	26,000	140,400+	6%



Only 38% of the working class can afford to rent individual units, where the rest will have to live in community housing or a room sharing scheme. 17% can afford to rent one bedroom apartments in freehold area, whereas 13% can afford two bedrooms.

Leasehold Living Options Skewed Towards Affordable Housing



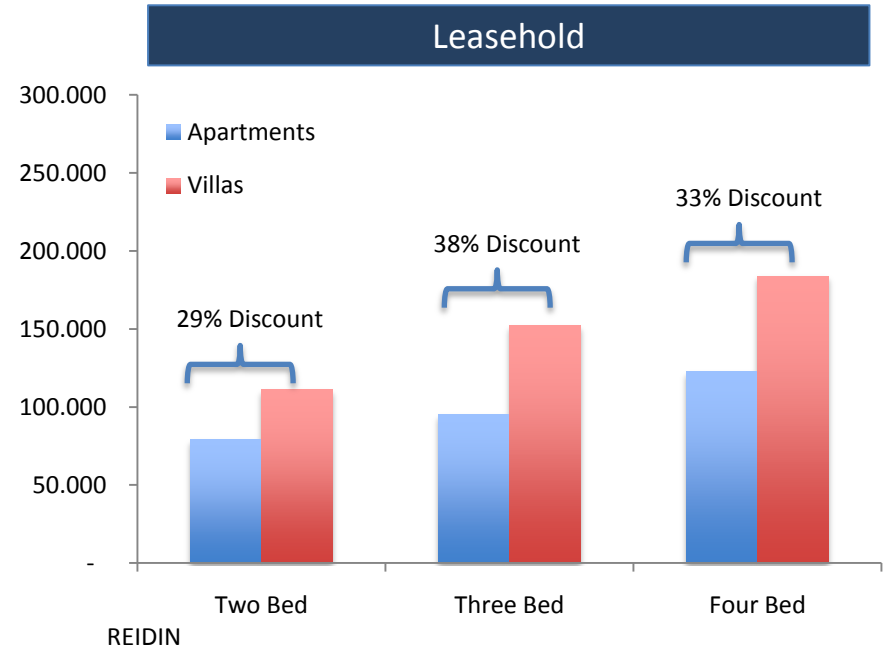
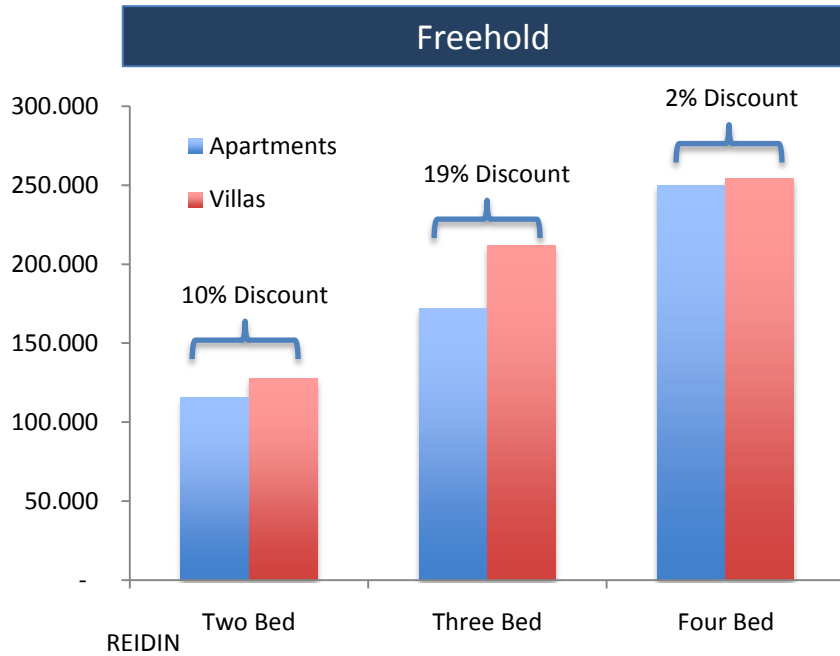
A comparison between current rental rates in leasehold and freehold areas reveals that the former caters to the affordable market, whereas the latter is for the affluent class. A rental comparison between the two areas reveals that on average apartments are cheaper by 49% and villas 31% in leasehold areas.

Villas Versus Apartments



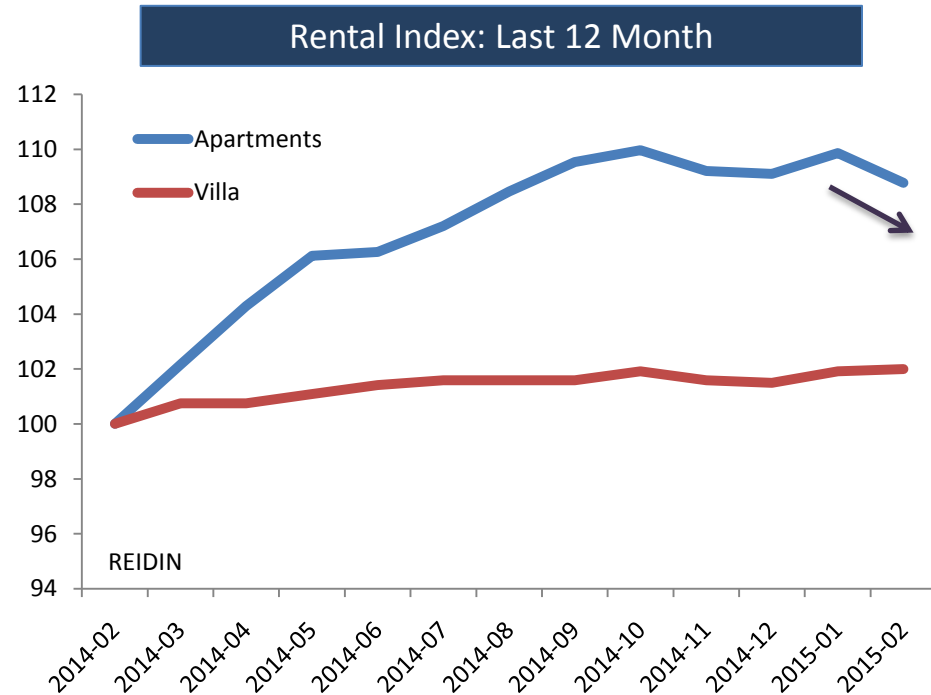
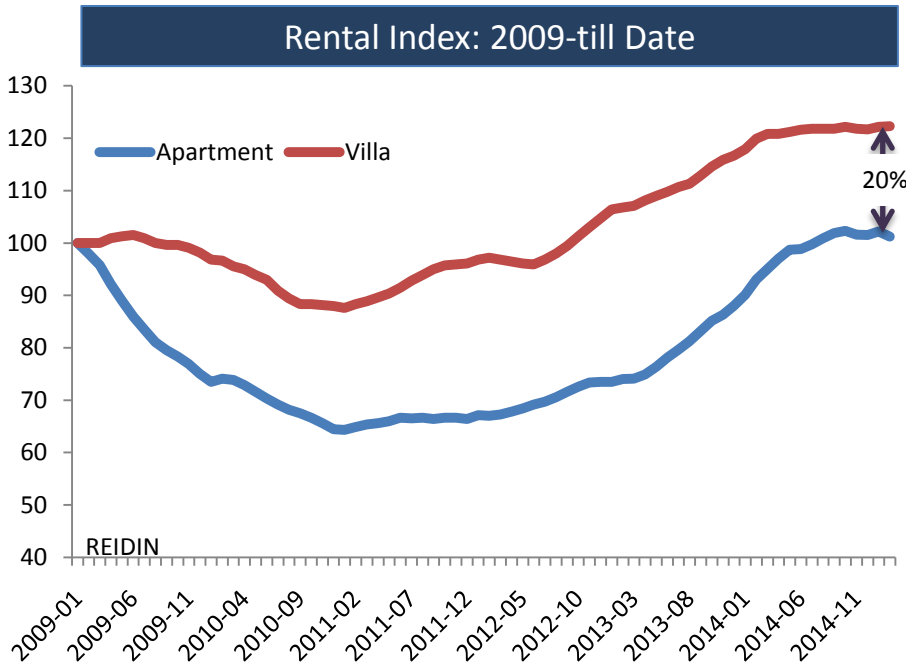
“In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing” - Theodore Roosevelt

Rent arbitrage in higher space units exists



A rental comparison between apartments and villas, reveals that on average apartments are cheaper by 10% in the freehold space and 33% in leasehold areas. The smallest discount between apartments and villas is in the four bedroom units in the freehold space, implying an arbitrage for tenants in this space.

Apartments Vs. Villas



In the last 5 years, villas have experienced higher rental growth rates (20%) to that of apartments, highlighting the strong demand of villas in the market. As the market adapted to cater for the pent up demand, a flurry of new projects within the villa segment were launched by private and government sector developers. In the last year, the dynamics of the villa market have changed with both rents and prices having fallen; whereas apartment rental prices have remained relatively strong.

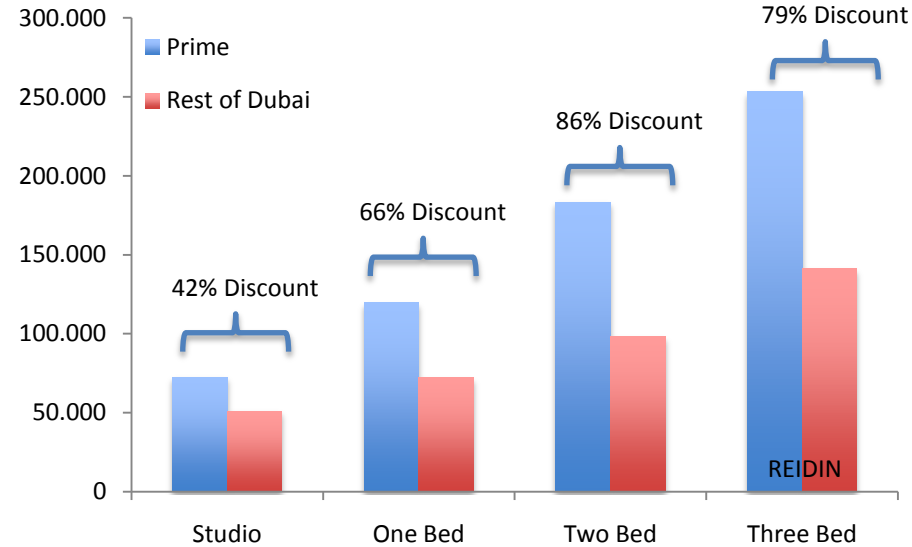
Prime Vs. The Rest of Dubai



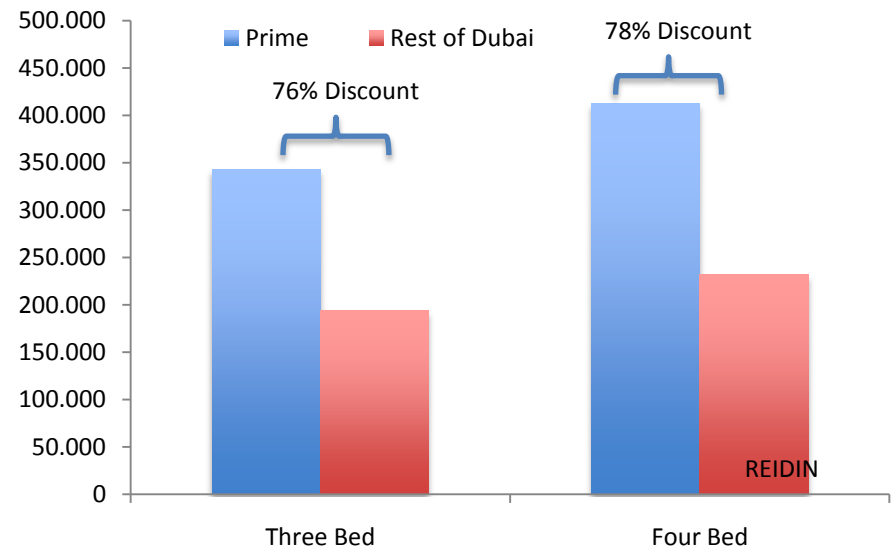
“Speculation is an effort, probably unsuccessful, to turn a little money into a lot. Investment is an effort, which should be successful, to prevent a lot of money from becoming a little.” — Fred Schwed Jr

Prime Vs. The Rest of Dubai in Freehold Areas

Apartments: Prime Vs. Rest of Dubai

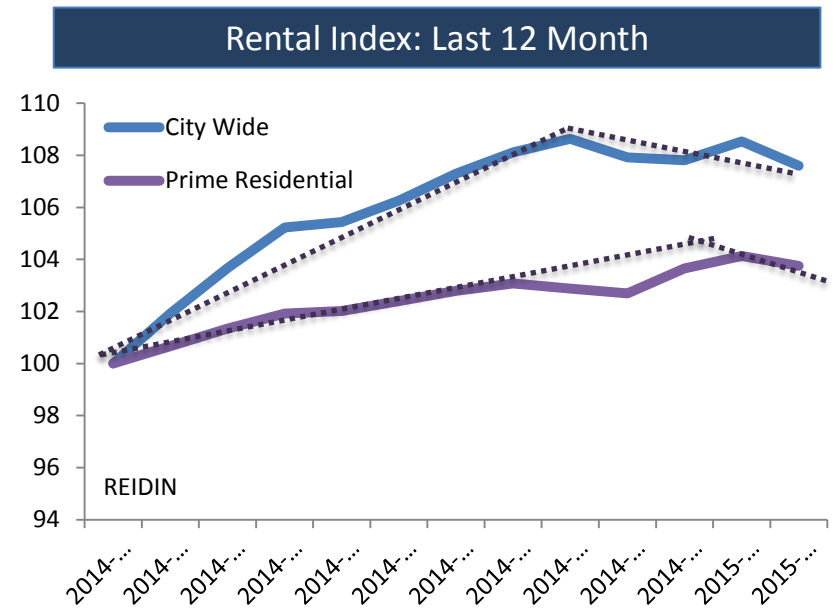
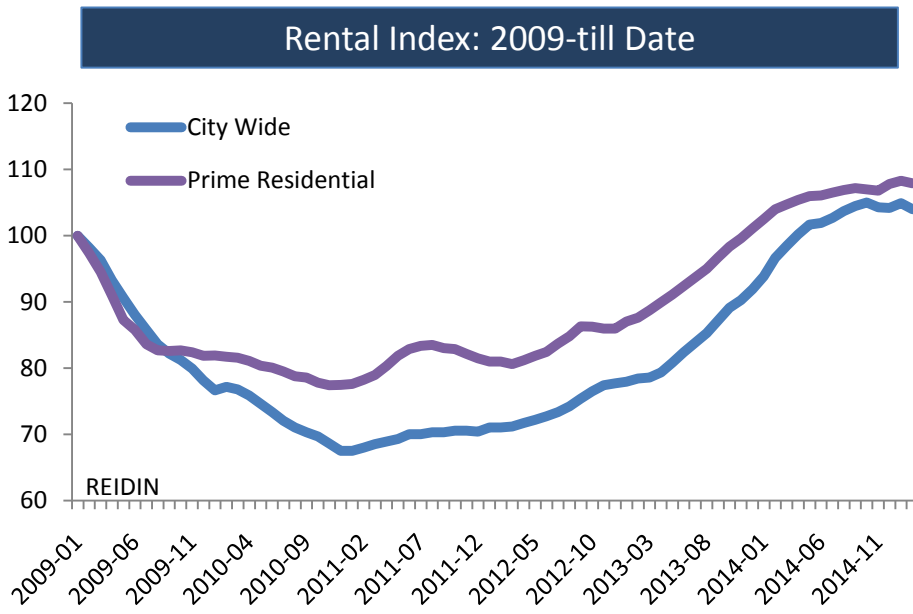


Villas: Prime Vs. Rest of Dubai



A snapshot of current rental rates between Prime Dubai and rest of the Dubai, reveals that the within the apartments segment there is 69% rental differential, where as in villas it is 77%. The greatest discount is in the two bedrooms in the apartment segment, whereas the smallest gap lies in the studio space.

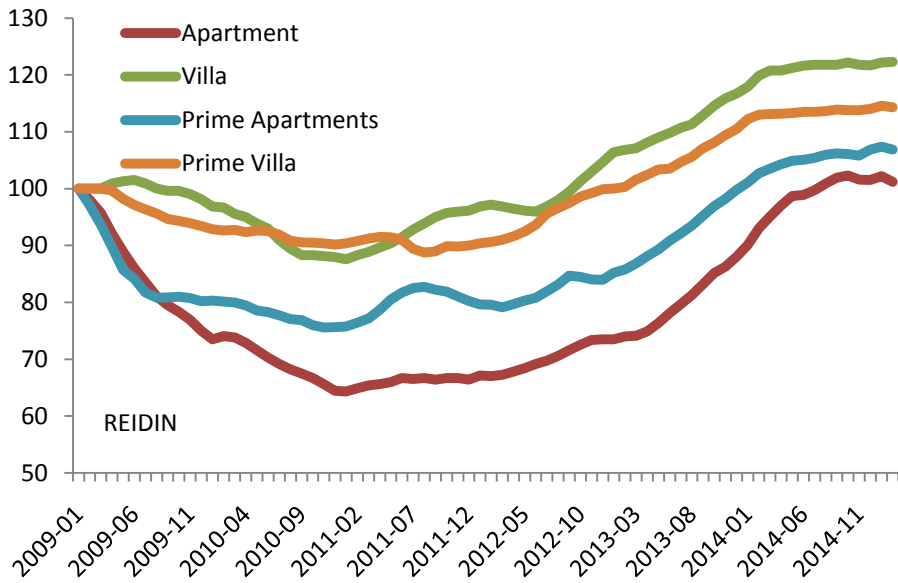
Prime Vs. The Rest of Dubai in Freehold Areas



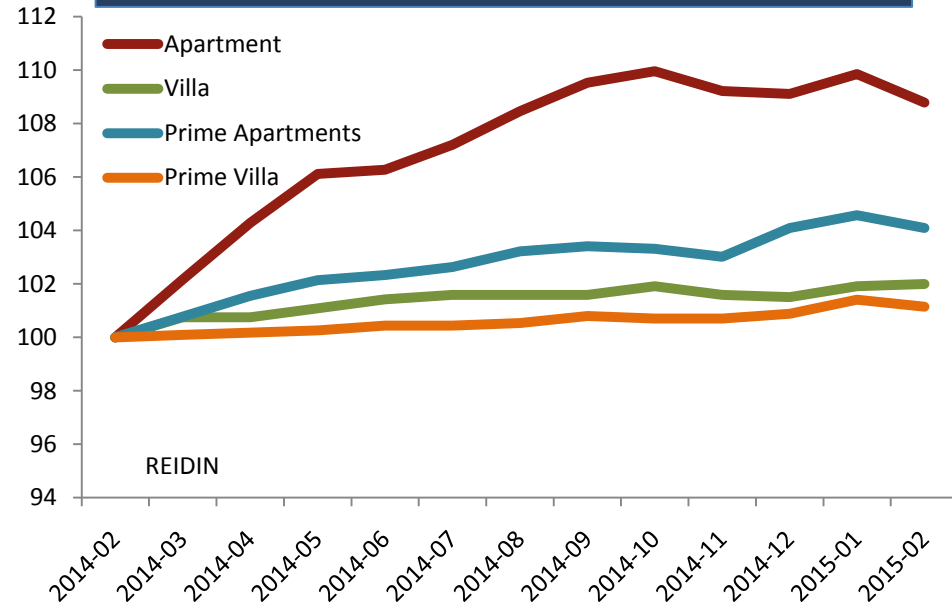
A 5 year analysis between rental rates in Prime properties versus city wide units shows that both segments were running parallel to each other. In the last 12 months, given the shortage of affordable housing, the city wide index has outperformed relative to prime units, indicating the demand for mid income housing.

Prime Rents in Villa Communities Begin to Stagnant

Rental Index: 2009-till Date



Rental Index: Last 12 Month



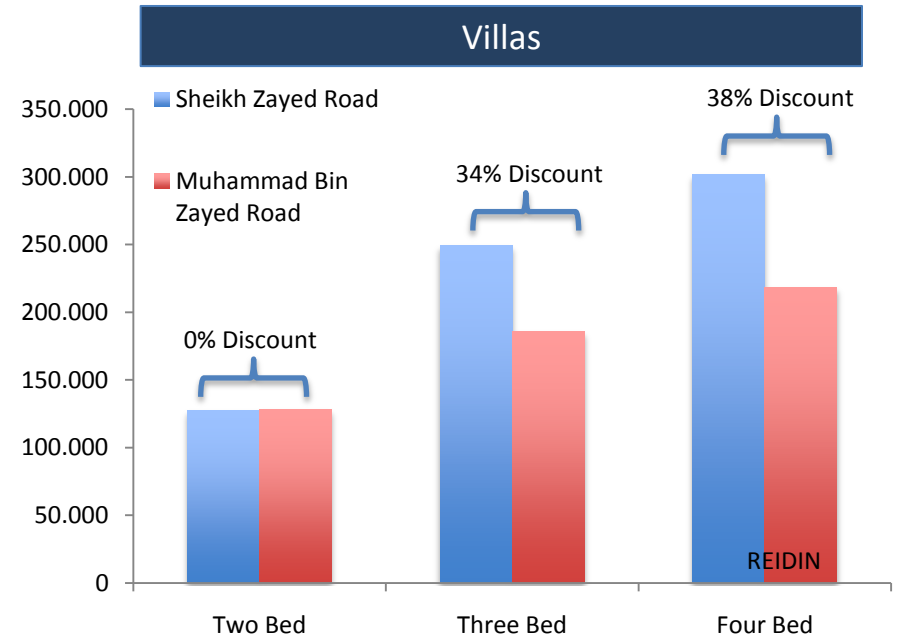
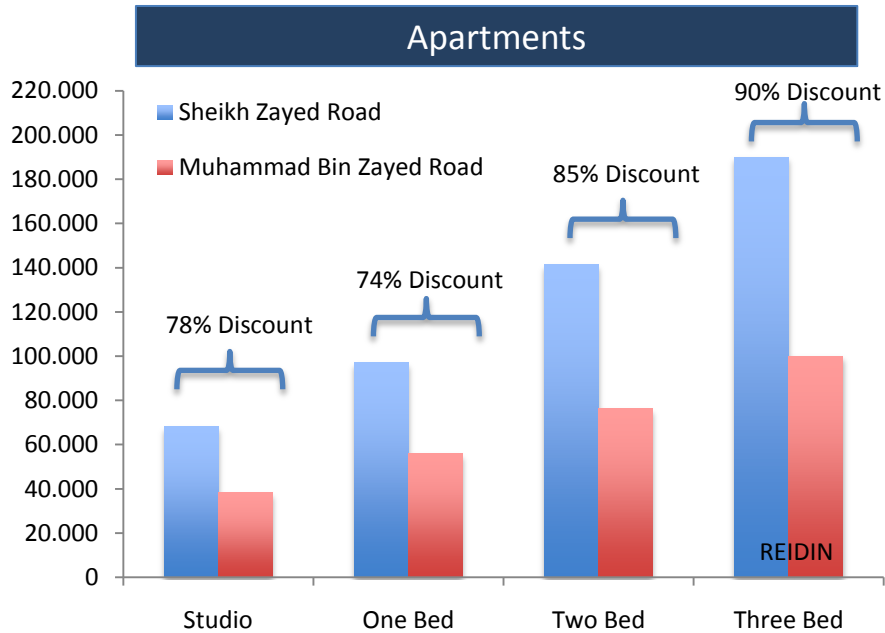
An analysis between Prime properties and the rest of Dubai exhibits that Villas in both categories have out performed the market over a 5 year horizon. In the last 12 months the worst performer has been prime villas, followed by regular villa communities. Prime properties have had a sluggish performance relative to the rest of Dubai, highlighting the strong demand within the affordable segment.

Muhammad Bin Zayed Road Vs. Sheikh Zayed Road



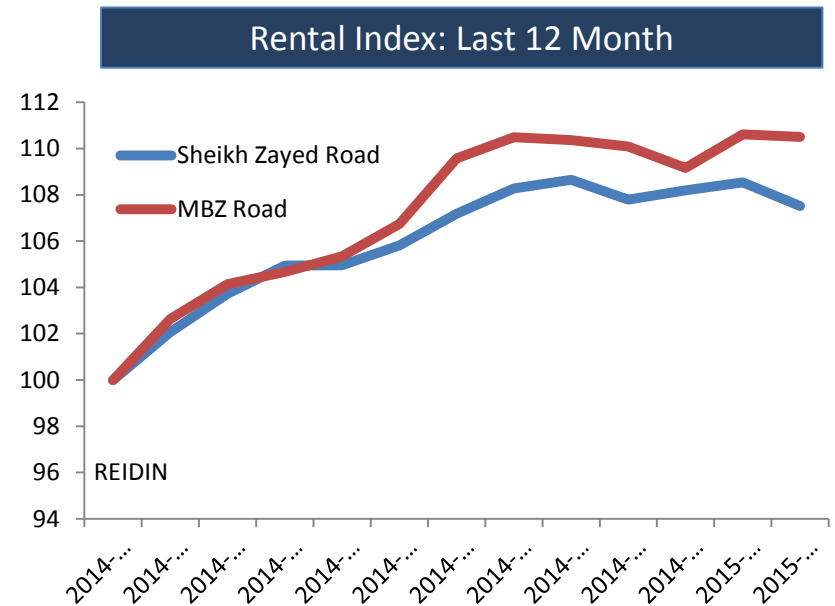
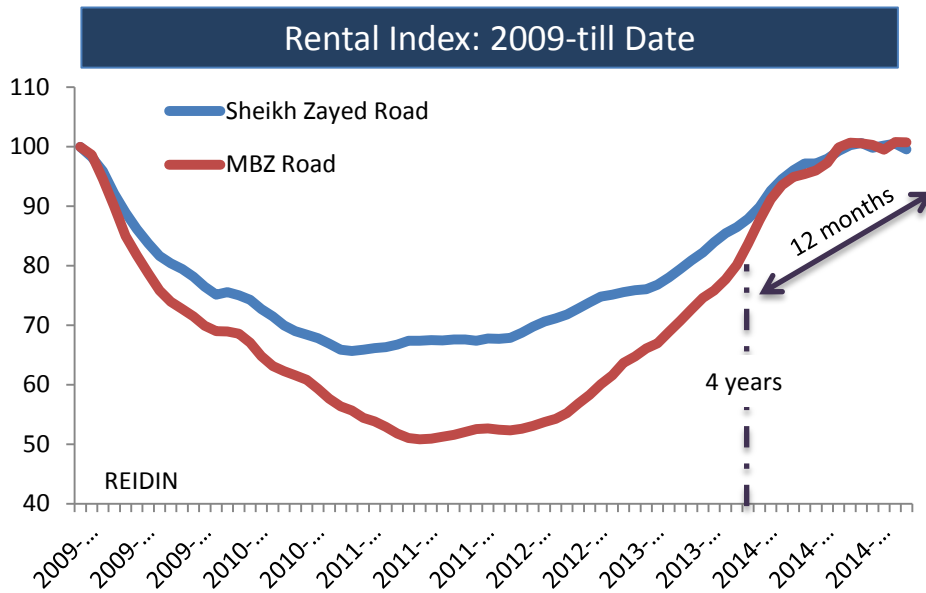
“Errors using inadequate data are much less than those using no data at all” - Charles Babbage

Muhammad Bin Zayed Road the Cheaper Alternative



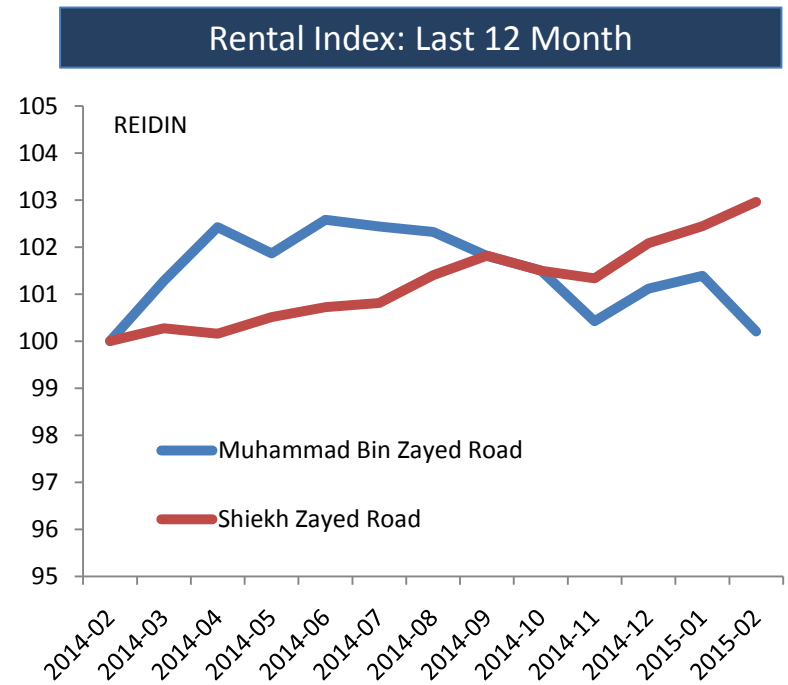
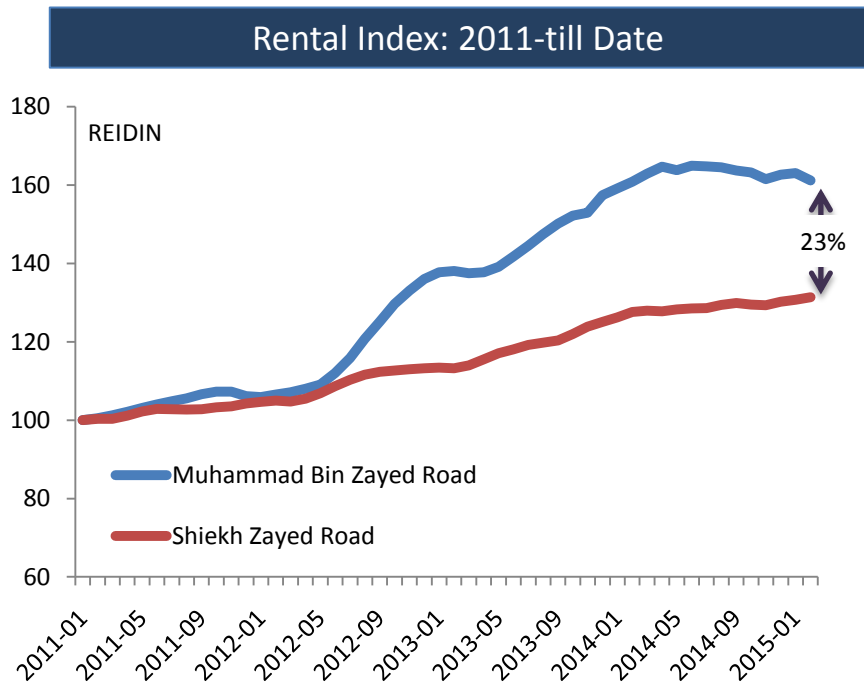
A rental analysis between freehold properties on Sheikh Zayed Road and Muhammad bin Zayed Road reveals that in the apartment segment properties on SZR are almost double to that on the MBZ corridor, whereas only 30% higher in villa segment.

Muhammad Bin Zayed Road Versus Sheikh Zayed Road: Apartments



A time series analysis between apartments on both corridors shows that historically MBZ has underperformed in the last 4 years. However, in the last 12 months the MBZ corridors has had superior growth rates, outperforming SZR by 30%. This has been due to the migration effect that has been taking place in that area, combined with the increased construction activity. We opine that this trend will continue as MBZ increasingly becomes a preferred area for tenants and homeowners alike.

Muhammad Bin Zayed Road Versus Sheikh Zayed Road: Villas



In the villa segment the opposite trend has been witnessed; MBZ road has outperformed by 23% in the last 4 years. However in the last 12 months we have seen an overall sluggish performance of rental rates in the villa segment, where SZR has marginally outperformed. We opine due to significant increase in supply on the MBZ road (ie Extension of Arabian Ranches, Mudon, Reem, Akoya, and Nahsama) this gap will continue to widen.

Conclusions

Prices are a leading indicator of rents, having a strong correlation of +0.8

Only 38% of the working class can afford to rent individual units, where the rest will have to live in community housing or a room sharing scheme

Purchasing Power of Renters

An income distribution examination suggest that 84% of Dubai's working population is forced to rent a properties, whereas the balance have the option to take a property on mortgage

A further dissection of the demographics reveals that only 38% of population can afford to rent units independently, without any external sources of income

The purchasing power for renters reveals that leasehold areas are a better trade of their accommodation due to the discount available compared to freehold areas

Apartments Versus Villas

A time series analysis of rental rates between apartments and villas, shows that the latter has historically had superior growth rates

However, due to the excess supply of villas that have been entering the market in the last 12 months, there has been reveal of roles, where apartments have had a greater price action

The least amount of spread between apartments and villas is in the four bedroom units in the freehold space, implying more value for their money in terms of space

MBZ Road Versus SZ Road

Historically, apartment rentals have underperformed on MBZ road compared to the Sheikh Zayed Corridor, whereas in villas the opposite has held true

Recently, there has been a paradigm shift, apartments on the MBZ Corridor have outperformed their counterparts on the SZ Road. A similar phenomena has been witnessed in the villa segment, where rental growth rates in SZ Road have had superior growth rates to MBZ road

As this trend plays out, we opine that rent differentials between the two corridors will converge

Prime Properties Versus Rest of Dubai

Over a 5 year horizon prime properties and the rest of Dubai have had similar rental growth rates.

However, in the last 12 months you have seen city-wide properties rise quicker, highlighting the pent up demand for affordable housing in the market, and the oversupply of prime properties.

Over the next 12-18 months, the affordable housing segment will continue to provide superior yields for investors, until the new supply beings to enter the market causing a dampening effect.

Appendix A: Leasehold Rental Index

Location	Studio		One Bed		Two Bed		Three Bed	
	Min	Max	Min	Max	Min	Max	Min	Max
Al Awir	20,000	30,000	35,000	40,000	40,000	45,000	-	-
Al Quoz	25,000	43,000	45,000	53,000	55,000	72,000	65,000	102,000
Abu hail	30,000	40,000	45,000	55,000	55,000	60,000	70,000	75,000
Al Baraha	30,000	40,000	40,000	50,000	50,000	60,000	60,000	70,000
Al Muhaisan	30,000	40,000	45,000	60,000	55,000	70,000	75,000	85,000
Al Murar	30,000	40,000	40,000	60,000	60,000	65,000	65,000	70,000
Al Ras	30,000	40,000	45,000	50,000	60,000	70,000	70,000	75,000
Al sabkha	30,000	40,000	45,000	50,000	55,000	65,000	70,000	80,000
Al Warga	30,000	40,000	50,000	60,000	65,000	75,000	70,000	80,000
Naif	30,000	40,000	45,000	50,000	60,000	65,000	65,000	75,000
Al buteen	35,000	45,000	50,000	60,000	65,000	70,000	70,000	75,000
Al Daghaya	35,000	45,000	50,000	60,000	65,000	70,000	70,000	75,000
Al Mamzar	35,000	40,000	55,000	65,000	70,000	80,000	85,000	90,000
Al Muraqabad	35,000	45,000	60,000	75,000	80,000	95,000	95,000	115,000
Al Muteena	35,000	40,000	55,000	70,000	70,000	80,000	85,000	95,000
Al Nadah	35,000	45,000	50,000	60,000	70,000	85,000	85,000	95,000
Al Tawar	35,000	40,000	45,000	50,000	60,000	70,000	75,000	85,000
Hoz Al Anz	35,000	40,000	50,000	60,000	70,000	80,000	85,000	95,000
Mirdiff	35,000	45,000	60,000	65,000	80,000	85,000	95,000	100,000
Al Kheeran	35,000	45,000	55,000	65,000	70,000	85,000		
Al Jefaliya	35,000	40,000	55,000	70,000	70,000	75,000	80,000	95,000
Satwa	35,000	40,000	45,000	65,000	65,000	75,000	80,000	90,000
Al Garhoud	40,000	50,000	55,000	65,000	85,000	90,000	110,000	120,000
Al Quasis	40,000	45,000	50,000	60,000	65,000	80,000	85,000	95,000
Al Rigga	40,000	45,000	60,000	70,000	75,000	90,000	95,000	105,000
Al Badaa	40,000	45,000	55,000	75,000	75,000	85,000	85,000	95,000
Al Hamriya	40,000	45,000	55,000	70,000	75,000	85,000	90,000	100,000
Al Hubaidiya	40,000	45,000	65,000	75,000	80,000	90,000	95,000	100,000
Al Karama	40,000	50,000	60,000	80,000	80,000	100,000	100,000	110,000
Al Mankool	40,000	55,000	65,000	80,000	85,000	110,000	110,000	140,000
Al Safa	40,000	45,000	70,000	75,000	95,000	105,000		
Umm Suqiem	40,000	50,000	70,000	75,000	90,000	100,000	110,000	135,000
Oud Mehta	40,000	50,000	70,000	80,000	85,000	110,000	105,000	130,000
Jumeirah	40,000	50,000	70,000	75,000	90,000	100,000	110,000	135,000
Al Wasl	40,000	50,000	65,000	75,000	85,000	100,000	100,000	120,000
Port Saeed	45,000	50,000	60,000	70,000	85,000	95,000	110,000	130,000
Mirdiff (Shorooq)	45,000	52,000	60,000	78,000	90,000	104,000		
Al Barsha	50,000	60,000	65,000	85,000	90,000	110,000	100,000	130,000
Trade Cnetre	50,000	60,000	90,000	110,000	115,000	145,000	140,000	160,000

Appendix B: Freehold Rental Index

Location	Studio		One Bed		Two Bed		Three Bed	
	Min	Max	Min	Max	Min	Max	Min	Max
International City	30,000	40,000	40,000	50,000	50,000	65,000	-	-
DIP	25,000	35,000	40,000	50,000	60,000	80,000	90,000	110,000
IMPZ	30,000	45,000	50,000	55,000	65,000	80,000	-	-
DSO	35,000	45,000	50,000	70,000	70,000	85,000	85,000	100,000
Discovery Garden	45,000	55,000	60,000	70,000	70,000	85,000	-	-
Dubai Sports City	40,000	45,000	60,000	75,000	80,000	100,000	-	-
JV	40,000	50,000	55,000	75,000	80,000	100,000	100,000	115,000
Tecom	50,000	55,000	70,000	80,000	90,000	110,000	110,000	130,000
Business Bay	65,000	75,000	90,000	110,000	120,000	140,000	170,000	190,000
JLT	55,000	75,000	80,000	100,000	120,000	150,000	150,000	180,000
Greens	60,000	70,000	80,000	90,000	120,000	150,000	160,000	180,000
JBR	75,000	85,000	100,000	130,000	130,000	160,000	180,000	210,000
Dubai Marina	60,000	80,000	90,000	120,000	140,000	190,000	210,000	260,000
Downtown	70,000	80,000	100,000	120,000	170,000	190,000	250,000	280,000
Palm Jumeirah	-	-	130,000	160,000	180,000	230,000	230,000	290,000



GCP believes in in-depth planning and discipline as a mechanism to identify and exploit market discrepancy and capitalize on diversified revenue streams.

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“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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