

STRICTLY CONFIDENTIAL



Dubai: Growth and the Second City

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Executive Summary

- A cross country GDP analysis reveals that the US and UAE reveals a high correlation between their growth rates compared to other major economies such as UK and India. The projected growth rate by the IMF for the US for 2016 is 2.4%, which implies that the UAE economy will continue to incur stable growth, especially given its strong fiscal stimulus.
- A look into the rental rates of the Dubai freehold supply reveals that circa 36% of units in monitored areas is below the 70,000 Aed level. Within those units the majority is skewed towards the studios and one bedrooms, with a limited supply of 2 bedrooms. Within the 2 bedroom space the Leasehold areas are more conducive for families offering substantial lower rents.
- The limited stock of affordable options in Dubai has caused for the neighboring emirates to act like satellite cities. Around 1.1 million people who work in Dubai are residents of another emirate (30% of the active population), as they try to take advantage of the cheaper rates. Rates in other emirates such as Sharjah, Ras Al Khaimah, and Ajman are 30-40% cheaper than the affordable options of Dubai, with accessibility to larger size units.
- A time series analysis of workers of Dubai who reside outside increased by 185% (13% to 37%) from 2005 to 2009, coinciding with the tripling of rental rates alongside the limited affordable housing options in the freehold space. However, after the World Financial Crisis, rental rates plunged causing the transient population to move back to Dubai. Since 2009 to 2015, the percentage of workers living outside Dubai decreased by 16% (37% to 31%) despite the increase in rental rates in 2012. During this period more affordable options in the freehold space became available in the form of DSO, Sports City, and Discovery Gardens, offsetting the hike of city-wide rents.
- As Dubai continues to push the job engine by deploying a fiscal stimulus in the economy, the population continues to ratchet higher despite the recent restructuring of certain sectors (i.e. financial services). A dissection of Dubai's employees pay scale reveals that salaries have been pushed upwards in the last 4 years. From 2012 to 2015, workers earning above 10K AED almost doubled increasing from 12% to 20%. The increase in company formation in the DED jurisdiction signals that job engine will continue to grow, as new licenses reaches its upper limit in Q2 2016 over the last four years.



Contents

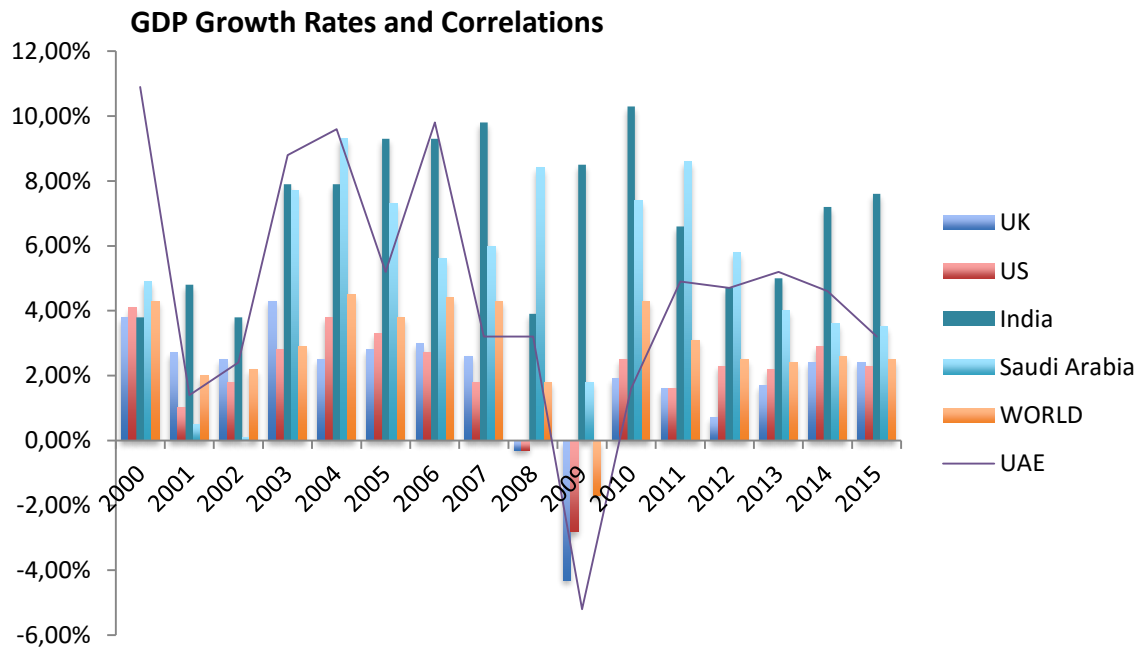
- 1 Follow the Lead: A cross country GDP analysis
- 1 The Supply Structure of Dubai's Rental Market
- 1 The Rise and Fall of Dubai's Satellite Cities
- 1 Dubai's Population Earning Power
- 5 Conclusions

Follow the leader: A Cross Country GDP Analysis



“All too often when liberals cite statistics, they forget the statisticians' warning that correlation is not causation” -
Thomas Sowell

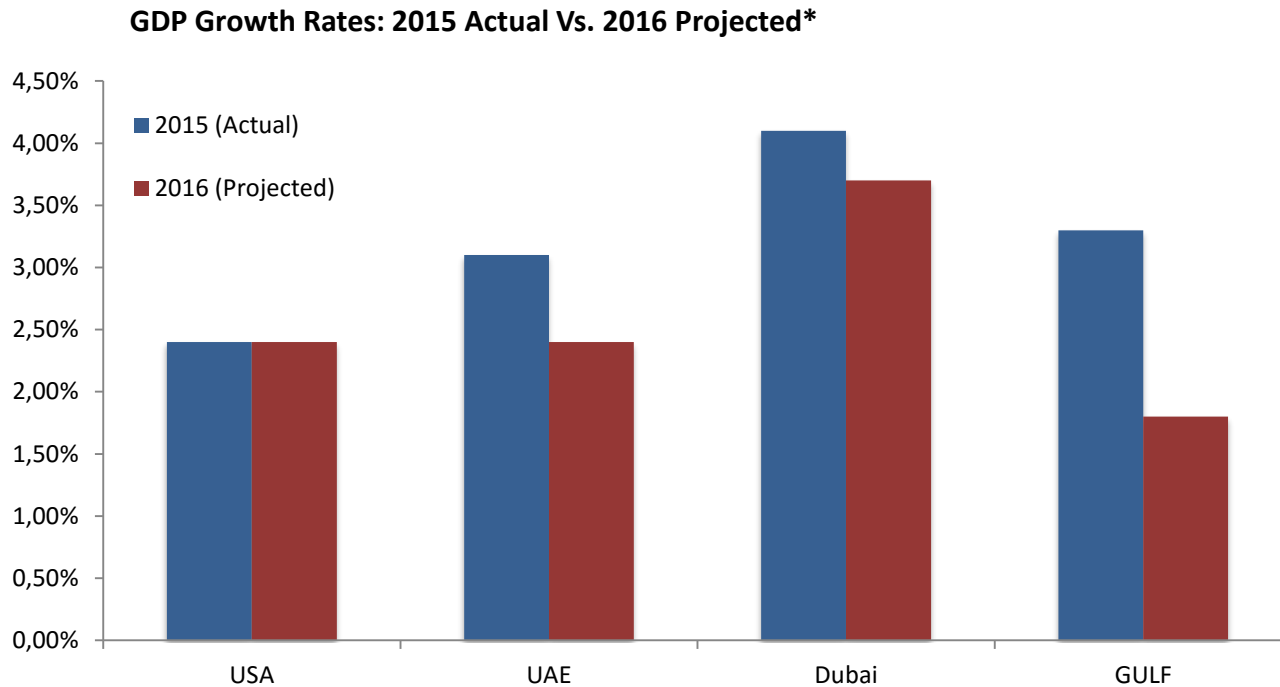
UAE GDP Growth Rates and Other Countries



Relationship	GDP CORREL
UAE:US	0.83
UAE:WORLD	0.77
UAE:UK	0.76
UAE:SAUDI	0.49
UAE:INDIA	-0.05

A cross country GDP analysis between UAE and other major economies, reveals that United States has the highest correlation of +0.83. The United State has continued to have positive growth in 2015 of 2.3%. The data reveals that as long as the US GDP growth remains strong, UAE economic growth will likely remain firm as well.

Projection of Growths of GDP



The above graph illustrates the actual and projected GDP growth for the US and Gulf countries. Although, the Gulf countries projected growth for 2016 is expected to slow given the reduced fiscal spending, Dubai's growth rate is expected to remain robust, especially given its considerable fiscal stimulus.

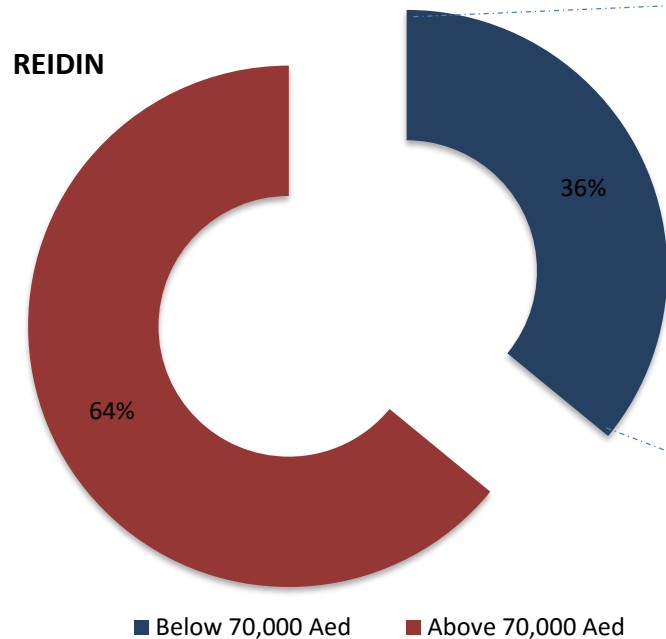
The Rental Supply Structure



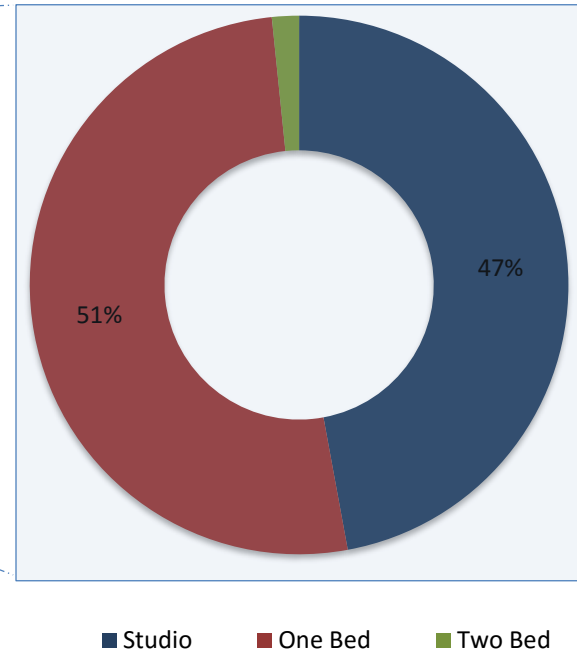
“Life is made up of a series of judgments on insufficient data, and if we waited to run down all our doubts, it would flow past us”
- Learned Hand

98% of Freehold supply within budget are Studios and One Beds....

Estimated Dubai Freehold Supply by Rental Value

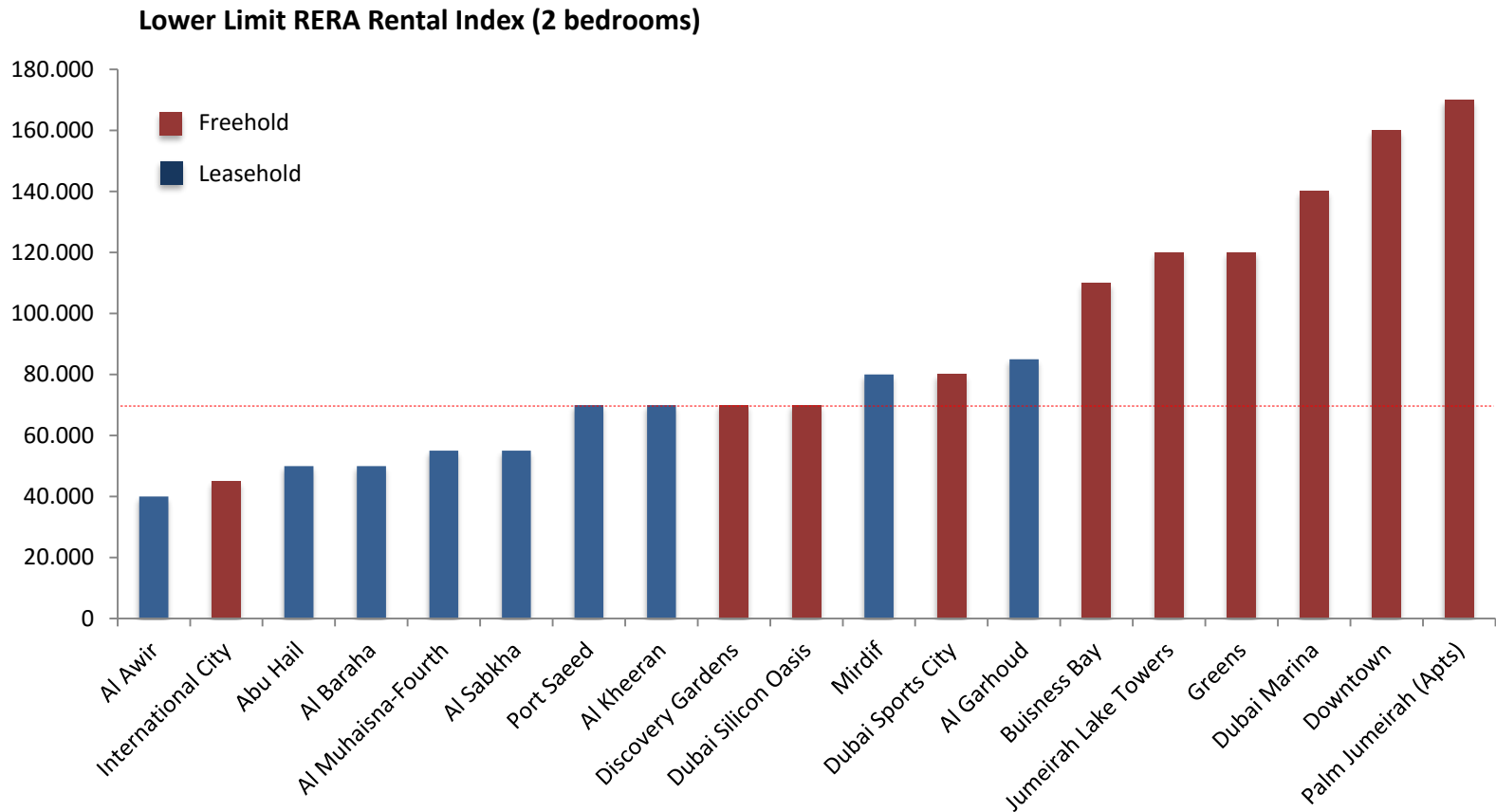


Estimated Breakup of Type of Units below AED 70K



A break-down of the structure of Dubai's freehold supply in relation to rental rates in monitored areas, reveals that only 36% is below the 70,000 AED annual rental mark. Within that segment, the majority is skewed towards studios and one-bedrooms, making it not family friendly. Developers will have to shift course, by offering larger dwellings at reasonable rates in order to attract families. It has been this supply pipeline that has led to the growth of satellite cities around Dubai. This has been a trend that has been witnessed in major metropolitan cities throughout the world.

A Look into Two Bed Rental Rates in Dubai ... Across Freehold and Leasehold



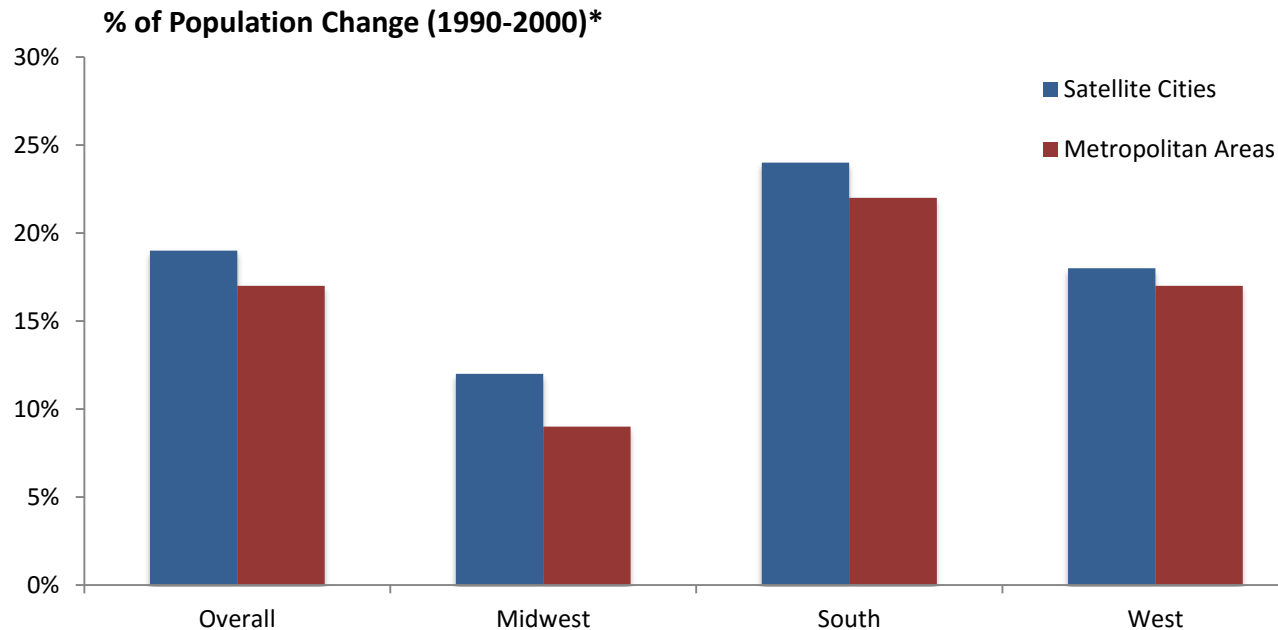
A look into the 2 bed room rental rates across freehold and lease hold communities reveals that the latter is better suited to accommodate the 70,000 AED level.

The Emergence of Satellite Cities



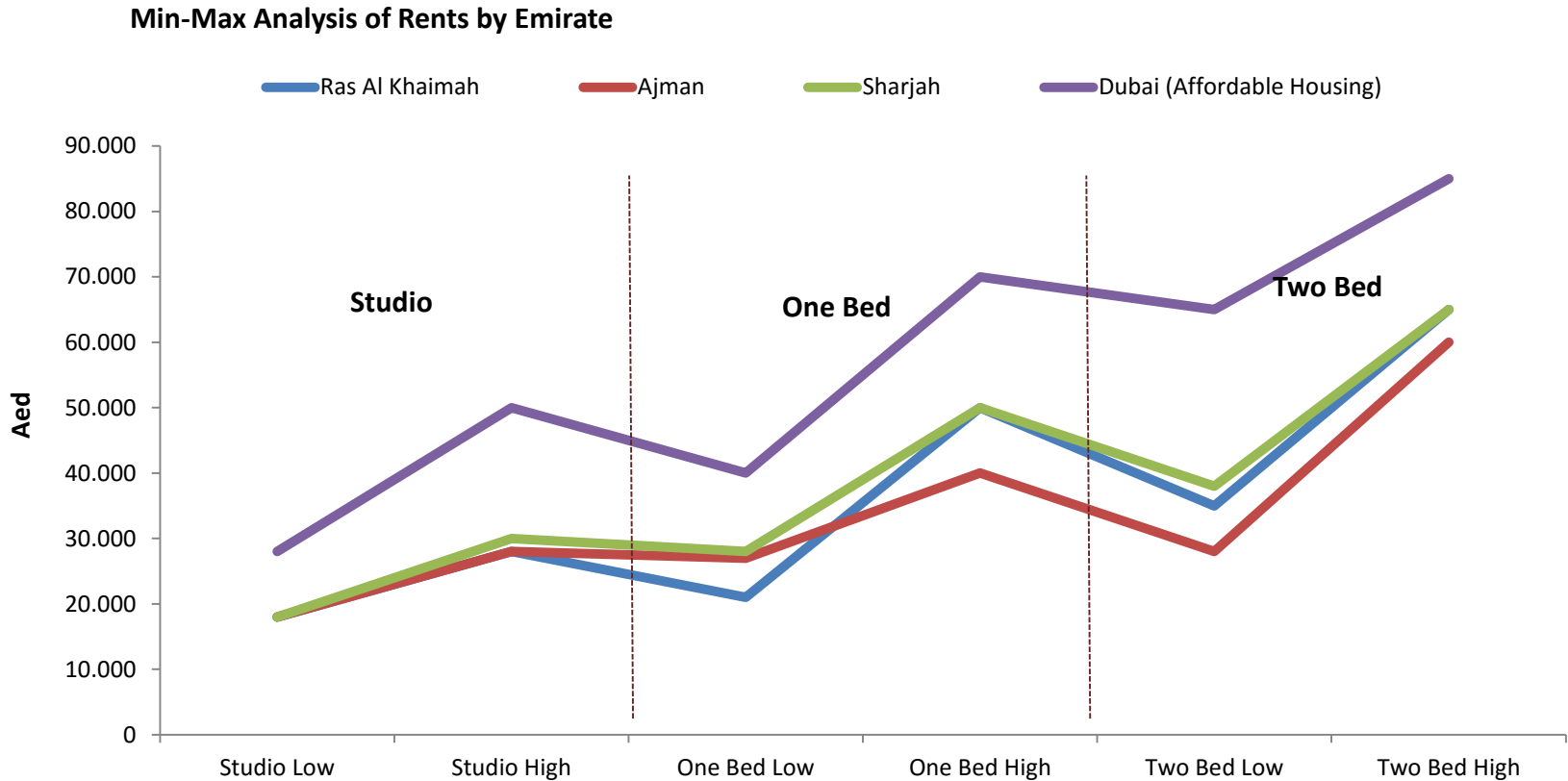
“Sometimes it's not enough to know what things mean, sometimes you have to know what things don't mean.”
— Bob Dylan

The Emergence of Satellite Cities: A look back into the 1990-2000 in the United States



The above graph demonstrates the population growth of metropolitan areas versus satellite cities in the United States from 1990 to 2000. Over the decade, satellite cities have had superior growth rates than metropolitan areas as residents get priced out of urban city centers.

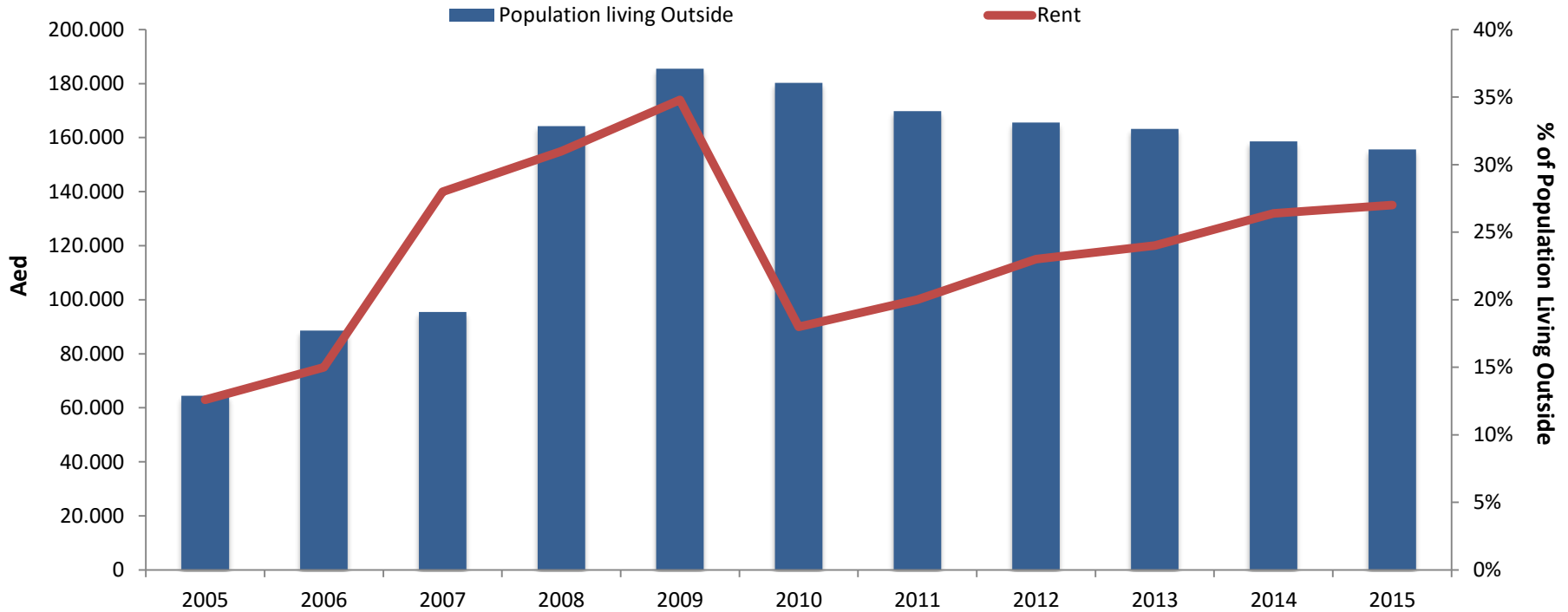
Cheaper Rents in other Emirates,



According to the Dubai Statistics Center, close to 1.1m reside outside Dubai, but commute into the city for work. The higher rents in Dubai have caused people to find alternate housing options in other emirates, creating satellite cities. Sharjah, Ajman, and RAK have options that are 30-40% cheaper compared to Dubai's affordable housing.

The Emergence of Satellite Cities: Rents and Supply (I)

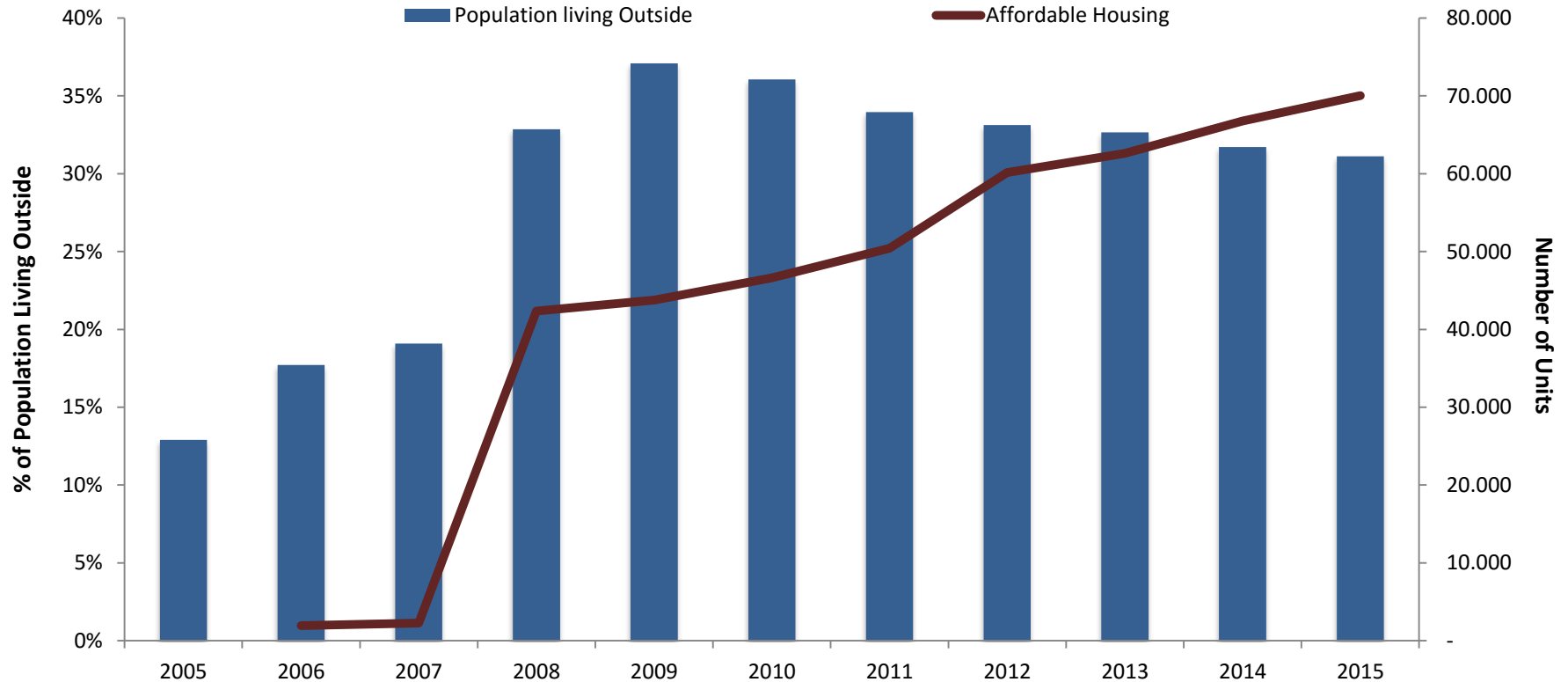
% of Population Living Outside Dubai Versus Rents



The above graph reveals the relationship between the population living outside and the rental rates. We can witness from 2005 to 2009, the percentage of people living outside increased dramatically as rents closed to tripled. However as rental rates plunged in the wake of the World Financial Crisis, the population living outside began to shrink, as Dubai became more affordable. In the subsequent market cycle, we witness that although rents spiraled upwards, the population living outside continued to taper. We opine the reason for this continued decrease is due to the increase in affordable options that become active (highlighted in the following slide).

The Emergence of Satellite Cities: Rents and Supply (II)

% of Population Living Outside Dubai Versus Affordable Housing Supply



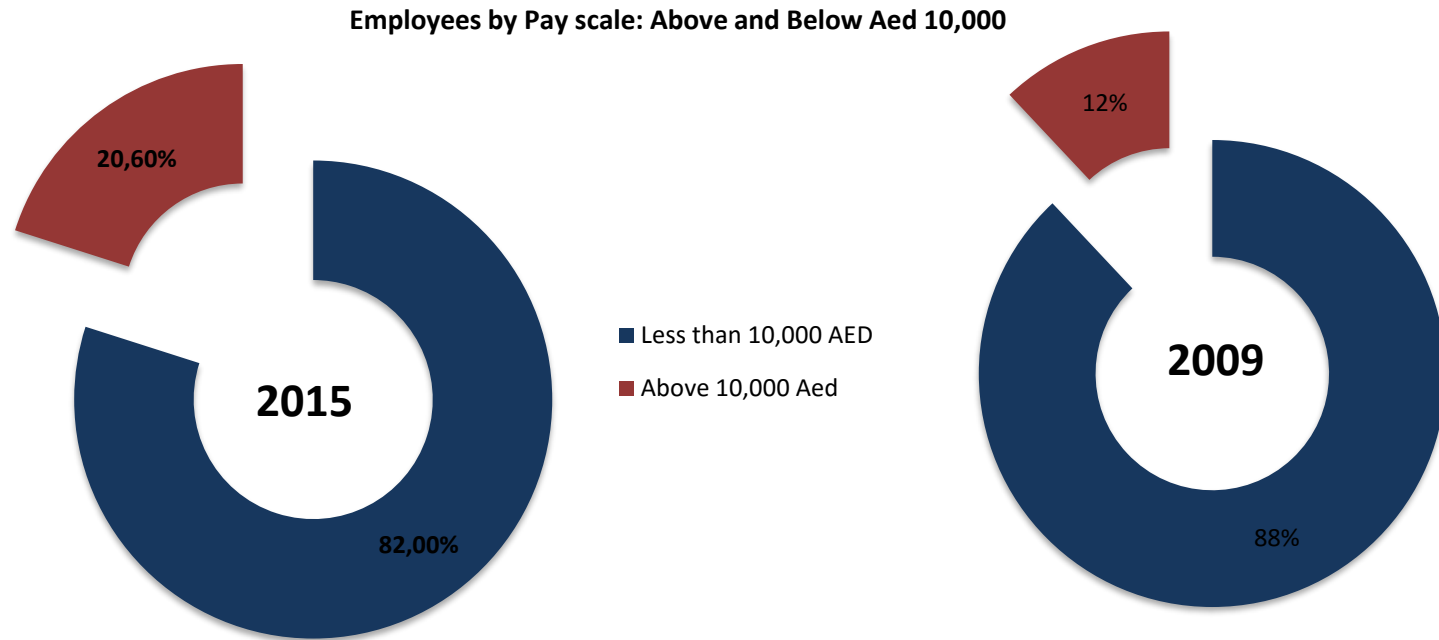
The above graph reveals the relationship with the supply of affordable housing and the percentage of people living outside. We witness that although rents increased in 2012, affordable options began entering the market, causing migration outside Dubai to lessen. We opine with the new focus of developers in the affordable segment coupled with the government laws, the residents residing outside Dubai will continue to fall further.

Dubai's Population Earning Power



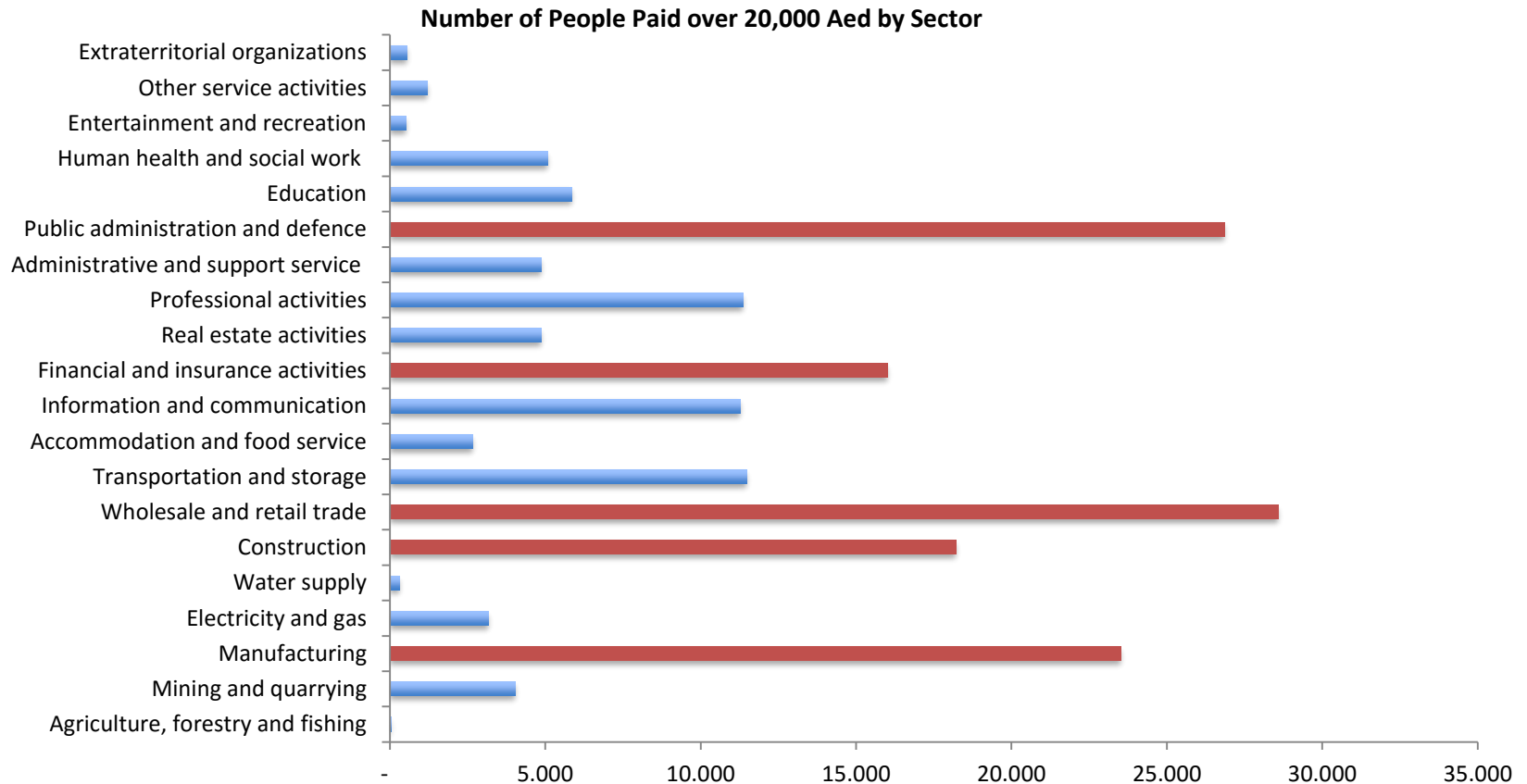
"Need is not demand. Effective economic demand requires not merely need but corresponding purchasing power." - Henry Hazlitt

Dubai Salaries Have Inclined Upwards



A dissection of the income levels of employees over the years reveals a shift in higher earning power in the populace. In 2009, only 12% of people were earning above 10,000 AED, however in 2015 this has nearly doubled.

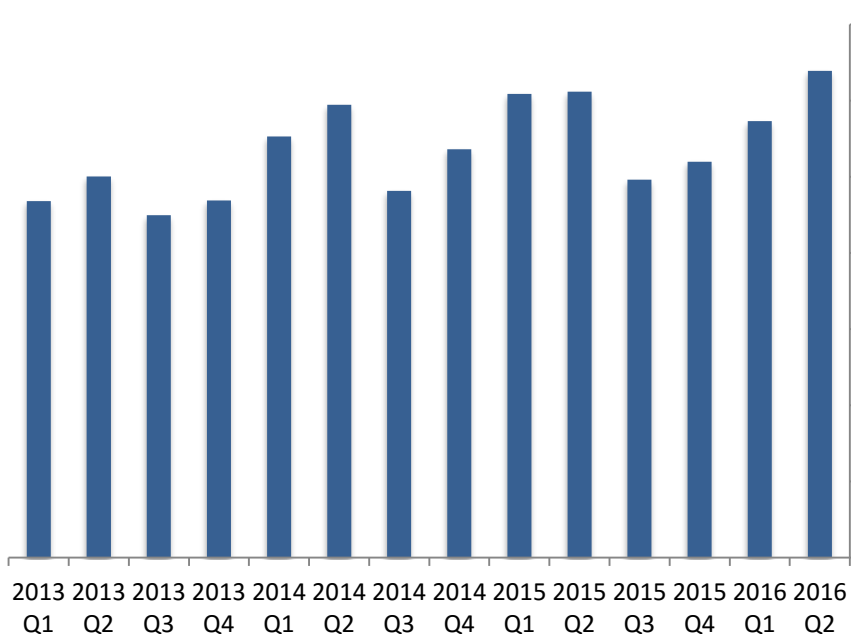
A Closer Look into Salaries by Sector



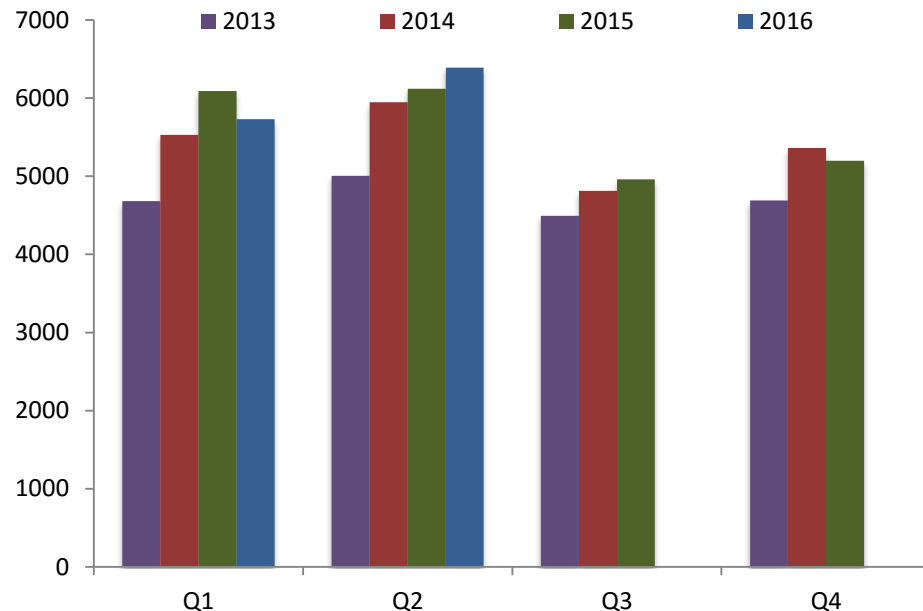
The above graph reveals that the most number of people paid above 20,000 AED are in the Wholesale, Manufacturing, Construction, and Public administration sectors. As Dubai continues to diversify its economy, driven by a construction boom, we can expect that the purchasing power of the population will increase.

2016 New Company Formations Continues to Remain Buoyant

New DED Company Formations (2013 – 2016 H1)



New DED Company Formations (Q-o-Q)



A look into the company formations of new businesses in the DED jurisdiction reveals that Q2 2016, has been the highest in the last four years signaling a positive growth trend in business activity. 2016 Q1 vs 2016 Q2 new company formations have risen by 19%.

Conclusions

The data reveals that as long as the US GDP growth remains strong, UAE economic growth will likely remain firm as well.

According to the Dubai Statistics Center, close to 1.1m reside outside Dubai, but commute into the city for work.

A Cross Country GDP Analysis

A cross country GDP analysis between the UAE and other world economies reveals that the UAE has the highest correlation with the United States (+ 0.83) over a 15 year horizon.

The US economy is projected to incur stable growth in 2016 by the IMF. If this relationship continues to hold, we can expect that the UAE's GDP growth will remain firm.

Within the UAE, we expect Dubai to continue have superior growth rates than rest of the emirates due to governments fiscal stimulus underway

The Rise and Fall of Dubai Satellite Cities

Approximately one third of the Dubai's working population lives outside of Dubai according to the DSC. The emergence of satellite cities is largely centered around two variables (i) rents and (ii) supply.

We witness that initially when there was limited affordable housing options in 2005, the number of people living outside Dubai ratcheted higher as rents tripled, and then began to slide lower as rents fell in the wake of the WFC.

However, in the recent market cycle, the population living outside continued to decrease. We attribute this movement to the introduction of affordable communities from 2007-2010.

Supply Structure of Dubai Rentals Market

An estimate of Dubai's freehold rental market reveals that 36% of units are below the AED 70,000 level.

A further dissection of the data shows that there is an acute shortage of larger size units. Studios and one bedrooms make up 98% of the supply.

The majority of the affordable larger size units can be found in the lease hold areas of Dubai.

It has been this skewness of supply that has lead to the emergence of satellite cities.

Dubai's Population Earning Power

A dissection of Dubai's population wages a shift in higher earning power. In 2009, only 12% of people were earning above AED 10,000; however in 2015 this has nearly doubled.

Construction, manufacturing, retail and whole sale, along with public administration employees the most number of workers above the AED 20,000 level.

These sector will be the benefactors of the fiscal stimulus underway, causing the populace to have a higher purchasing power in the future.



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The Ruler of Dubai and Prime Minister of UAE