

STRICTLY CONFIDENTIAL



Dubai: A Tale in Three Markets

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Executive Summary

- An analysis of the relationship between the Dubai real estate market, Financial Markets, and global oil price reveals certain trends are underway. Historically there has been a low correlation between oil and real estate price action. However, in the last 6 months the relationship has dramatically increased as concerns have amplified of the impact of oil prices on real estate activity.
- Similarly, there has been a moderately positive correlation between the equity and real estate market. This relationship has inverted in the last 6-12 month, as the equity market rebounded by more than 25% from its lows. Mean reversion suggests again that the relationship is expected to normalize, suggesting an imminent rise in real estate prices.
- The relationship between Oil and the Dubai Financial Markets reveals that its has stayed consistent throughout implying that the aforementioned relationships will stabilize through a rise in real estate prices.
- A look in the price and supply dynamics reveals that as expected oil prices are negatively correlated to supply trends. A similar relationship is exhibited in the real estate space, however with a slower elasticity to change than oil. In both instances supply has started to dip, which has resulted in oil prices to rally off their lows. However, in the real estate space this turn around has not yet transpired. We opine as supply deliveries begin to slow compared to the previous years we can expect a price escalation in the near future.
- A lagged correlation between the number of units launched and the subsequent impact on real estate prices confirms an intuitively understood relationship. Given a two to three year lag, there is a strong negative correlation between the number of units launched and the level of price activity. This relationship has been empirically observed to be stable for over a decade, implying that part of the subdued price performance has been attributable to the number of launches that have been witnessed. Given the stronger relationship that exists between the ready supply and price levels, however, an internally consistent paradigm implies a gradual increase in price levels, something that has already started to be observed in select communities.



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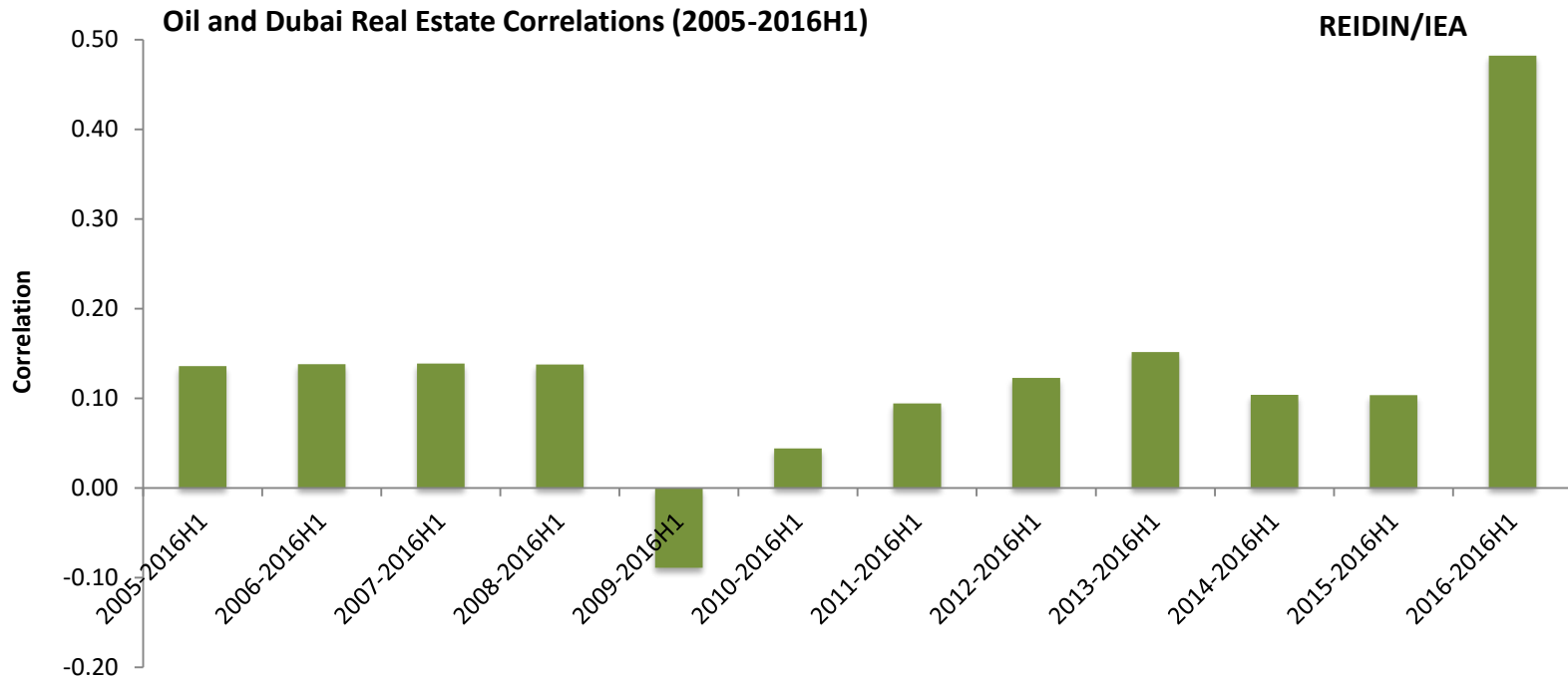
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Correlations, Correlations, and Correlations



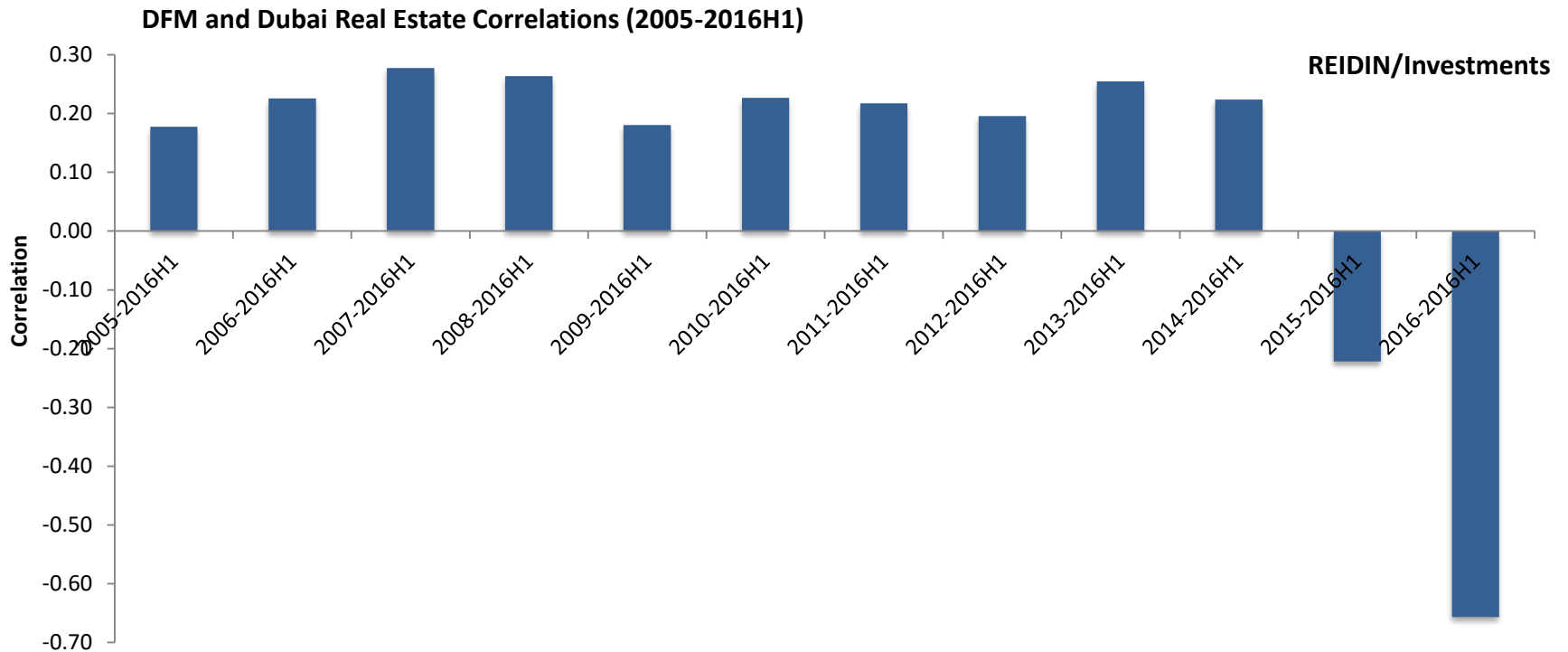
“All too often when liberals cite statistics, they forget the statisticians' warning that correlation is not causation”-
Thomas Sowell

Correlations: Oil and The Dubai Real Estate Market



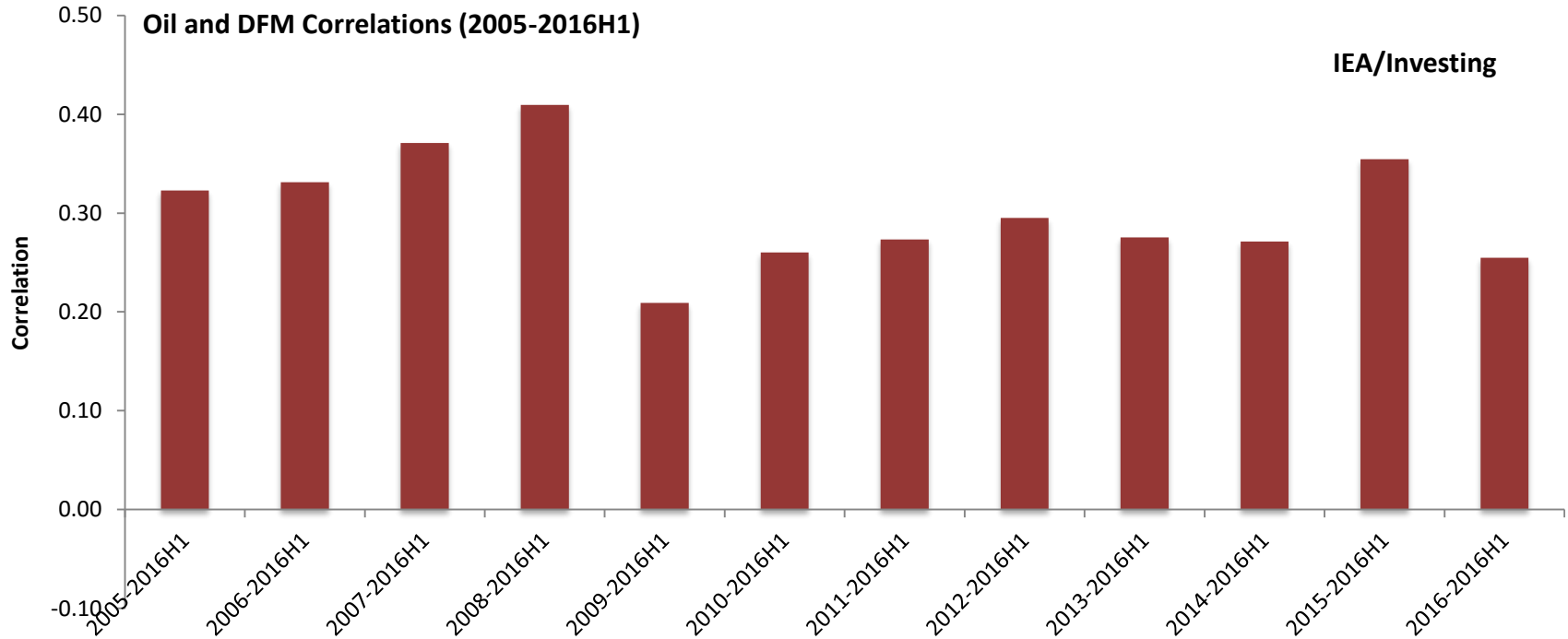
The above graph reveals that historically, there was a low yet stable correlation between oil prices and the level of real estate price changes in Dubai. Only in the last 6 months has this relationship strengthened significantly, as concerns have amplified of the impact of oil prices on real estate activity. However, if history is any guide, such peaks and troughs have historically mean reverted in the past, suggesting that a similar outcome is likely in the coming months as the relationship reverts to normal levels.

Correlations: Dubai Financial Markets and The Dubai Real Estate Market



Historically, in Dubai, as well as the rest of the world, there has always been a moderately positive correlation between the equity and real estate markets; again this relationship seems to have inverted in the last year, revealing sluggish real estate price activity even as equity markets have rebounded by more than 28% from their recent lows in 2015. Mean reversion suggests again that the relationship is expected to normalize, suggesting an imminent rise in real estate prices.

Correlations: Dubai Financial Markets and Oil



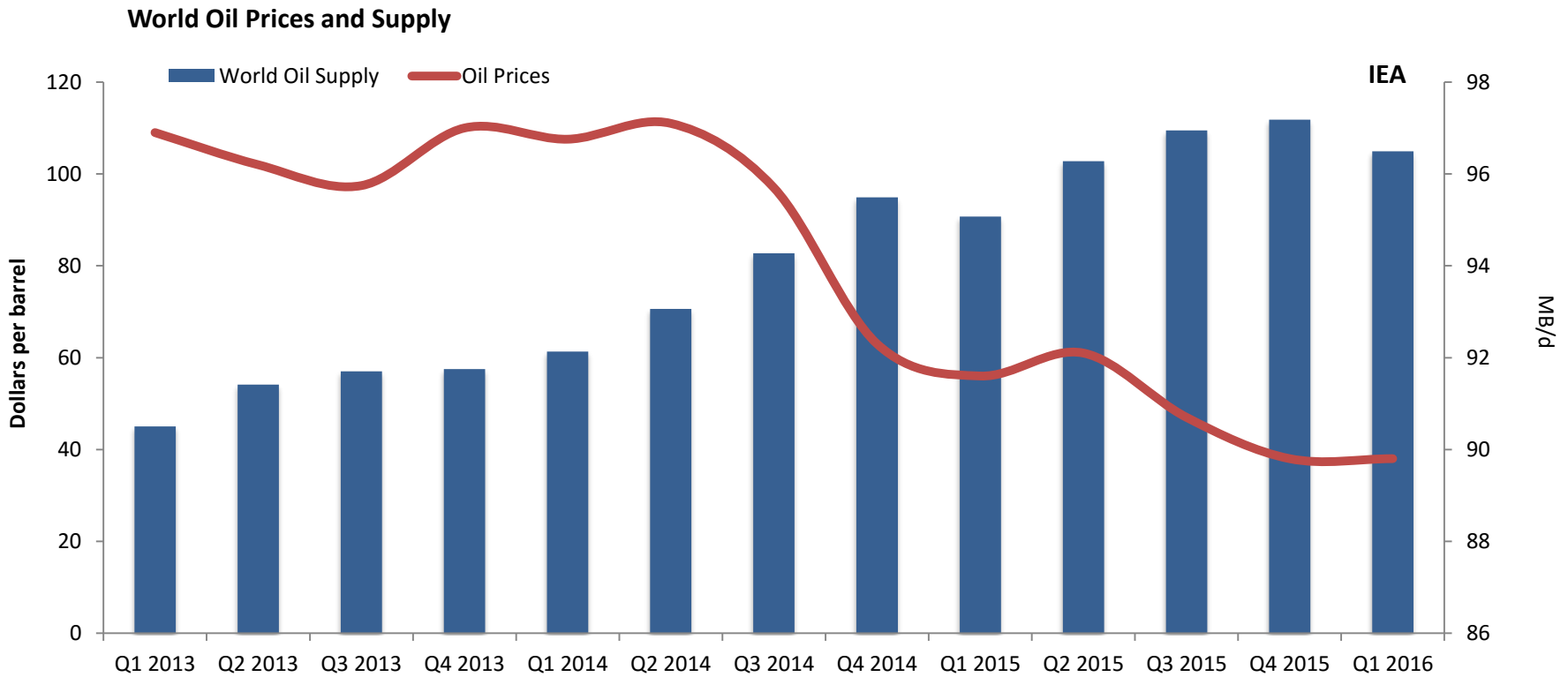
The relationship between oil prices and equity indices has remained stable throughout the turbulence exhibited by the markets. This suggests that there has been an internal inconsistency in the breakdown of the earlier relationships, reinforcing the assertion that in order for the other relationships to stabilize, real estate prices are poised to rise.

Supply and Price Movements



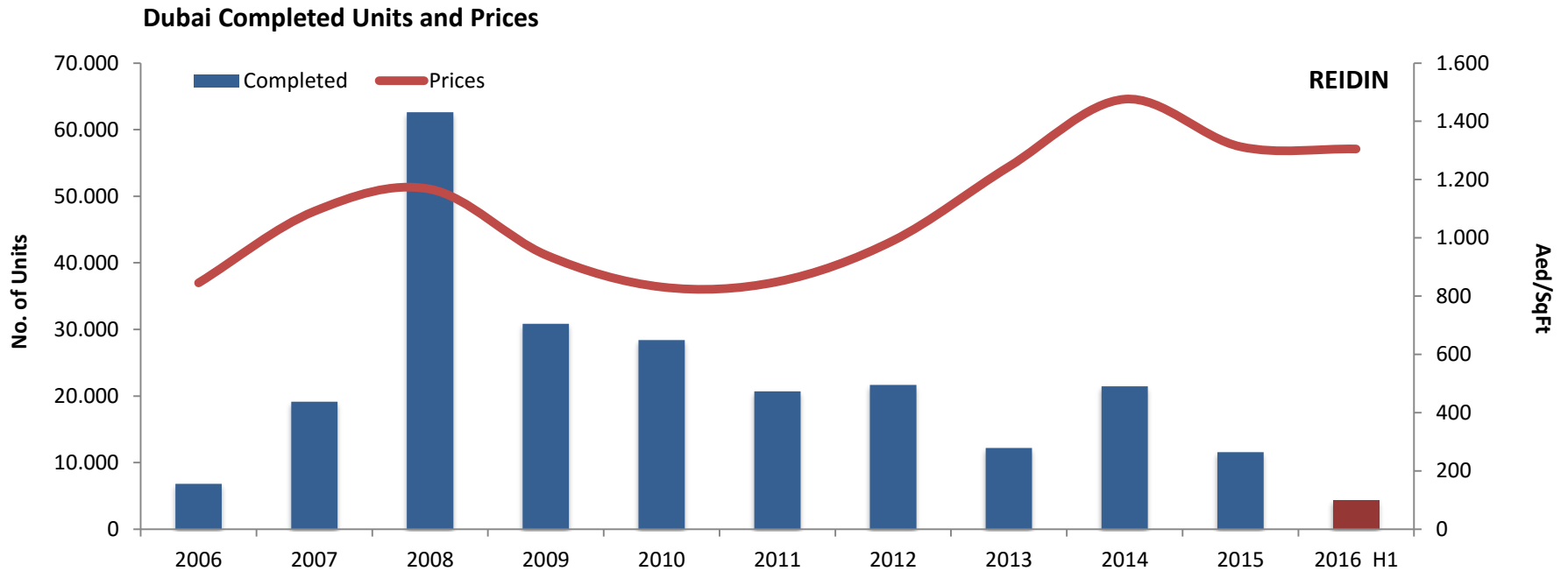
“An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today”.
Laurence J. Peter

Global Oil Supply and Price Action



As expected, oil prices are negatively correlated to supply trends, and in point of fact, exhibit greater and quicker elasticity to the changes in supply as compared to other markets. With supply levels now starting to dip, oil prices have rebounded from their lows, a trend that is likely to continue.

Real Estate Price Actions and Supply



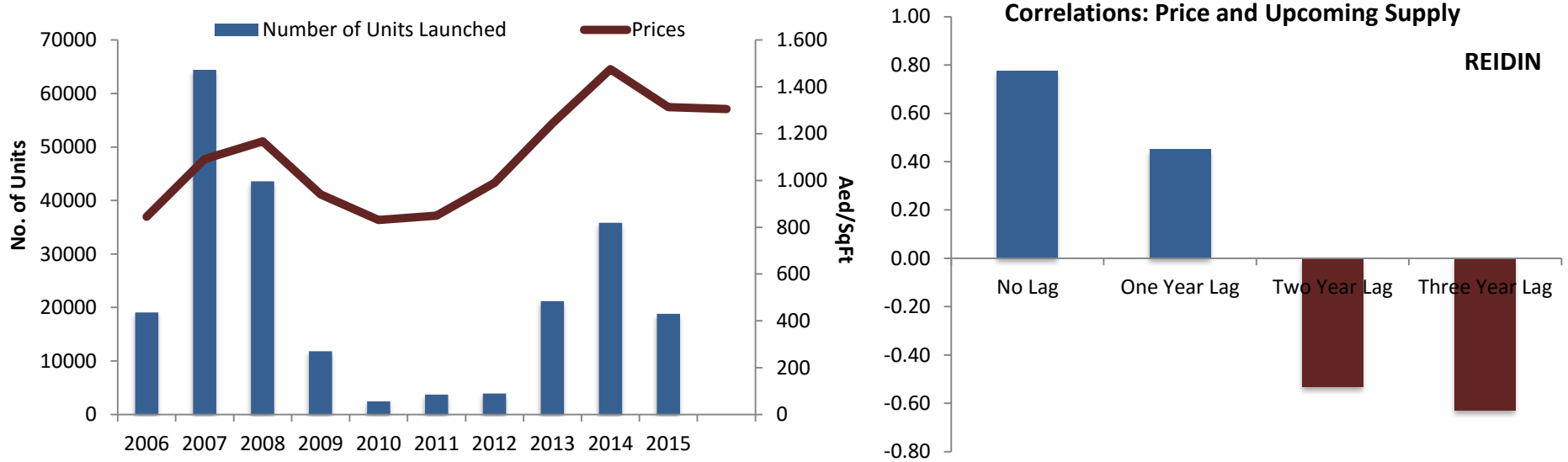
Similarly in the real estate market, there is a negative correlation between ready supply levels and price changes (-0.52). Given the slowdown in the markets, developers have been far more responsive to market signals this time around, reducing the supply pipeline. This moderation in the supply pipeline has therefore had a role in the moderation of prices, and we opine, lead to an increase in price trajectory.

Projected Supply, Prices, and Correlations



“You can predict all you want, but everybody knows what predictions get you”
- Hope Solo

Prices, Projected Supply, and Correlations in the Dubai Real Estate Market



A lagged correlation between the number of units launched and the subsequent impact on real estate prices confirms an intuitively understood relationship. Given a two to three year lag, there is a strong negative correlation between the number of units launched and the level of price activity. This relationship has been empirically observed to be stable for over a decade, implying that part of the subdued price performance has been attributable to the number of launches that have been witnessed. Given the stronger relationship that exists between the ready supply and price levels, however, an internally consistent paradigm implies a gradual increase in price levels, something that has already started to be observed in select communities.

Conclusions

Historically, in Dubai, as well as the rest of the world, there has always been a moderately positive correlation between the equity and real estate markets

Given the slowdown in the real estate market, developers have been far more responsive to market signals this time around, reducing the supply pipeline

Correlations, Correlations, & Correlations

Dubai Real estate and equities share a moderately positive correlation, however relationship seems to have inverted in the last year. Mean reversion suggests again that the relationship is expected to normalize, suggesting an imminent rise in real estate prices.

There has been a low correlation between oil prices and real estate market of Dubai. In the last 6 months this relationship has strengthened as concerns have amplified of the impact of oil prices on real estate activity. Peaks and troughs have historically mean reverted in the past, suggesting that a similar outcome is in the offing

Projected Supply and Price Action

There is a lagged correlation between the supply pipeline and price action in the ready market. This relationship has been empirically observed to be stable for over a decade, implying that part of the subdued price performance has been attributable to the number of launches that have been witnessed

Given the stronger relationship that exists between the ready supply and price levels, however, an internally consistent paradigm implies a gradual increase in price levels, something that has already started to be observed in select communities.

Supply and Price Movements

The obvious relationship between prices and supply can be exhibited in the oil and Dubai real estate market. The oil market is quicker to factor in supply movement in pricing, whereas the real estate market faces a lag.

The recent decrease in supply of both markets will lead to a price rise, which has already transpired in the oil market (35% up from its lows).

Although price hikes in the real estate market have not transpired, there has been a bottoming out of the market. We opine that a price hike is imminent given the relationship continue to stand.

Conclusions

Historically, the relationship between equity and real estate prices have indicated that the former leads the way with the latter rising with a lag. This relationship has been observed internationally as well, and given the rise in equity market by more than 25%, it appears as if a rise in real estate prices is imminent.

Although correlation relationships assert over time, and are subject to endogenous and exogenous factors that vary in weightage in response to changing economic forces, certain fundamental relationships have remained unchanged and it is the reassertion of these relationships that imply a gradual increase in real estate prices



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