RESEARCH

Knight Frank

DUBAI INSIGHT 2017

RESIDENTIAL OVERVIEW

PRICE PERFORMANCE | DEMAND | OUTLOOK

Market resilience continues

Following a gradual softening in the market in 2016, Dubai's residential market is expected to remain stable over the first half of 2017. We see this as a sign of a further maturing market, with prices becoming more realistic as vendors adjust their expectations. Confidence is expected to return to the market with on-going government spending ahead of the Expo 2020.

Prices

The residential market in Dubai continued to soften in 2016, albeit at a slower rate. Sale prices in the mainstream market dropped 5% in 2016 versus 7% in 2015, whilst prices in the prime residential market declined 4% in 2016 versus 5% in 2015. Despite the annual dip in prices however, the General and Prime REIDIN sale price indices remained flat on a monthly basis since August 2016. This leads us to believe the residential market is reaching its cyclical trough.

While there has been much talk in the market about a dramatic decline in residential prices, akin to that witnessed in 2009, we believe the real estate market is better situated to face any potential threats. Regulations, government commitment to infrastructure spending, and the realization among developers of the need to phase out projects in line with demand to avoid an oversupply, lead us to believe the real estate market has become more mature and resilient.

Sales

Data from the Dubai Land Department (DLD) reveals that the total value of transactions across Dubai reached AED 259 billion (USD 70 billion) in 2016; a mere 3% decline from 2015 levels. Similarly, transaction volumes dropped 4% in 2016. Despite the slowdown in activity however, we believe transactional activity will gain momentum in 2017 as the market moves towards more sustainable growth levels.

In turn, the value of residential properties transacted in the prime market reached AED 1 billion in 2016. Particularly in this segment, the limited supply and strong demand from high net worth investors looking for long term capital appreciation, and well-crafted and good quality products, is expected to boost activity further in 2017.

Demand

Dubai continues to attract interest from international buyers. According to the Dubai Land Department (DLD), 2016 saw 136 nationalities invest in Dubai's property market, with the majority attributed to Emiratis. Foreign investors were led by Saudi, Indian, British, and Pakistani nationals, who have traditionally been the top four buyers of property in Dubai.

Established areas like Palm Jumeirah and Dubai Downtown continue to be popular choices for investors and occupiers alike. Looking inland, new master-developments such as Dubai Creek Harbour and Mohammed Bin Rashid City (MBR) are also proving attractive due to the planned infrastructure and supporting amenities. Their proximity to Downtown Dubai and the Central Business District along with the Dubai International Airport add to their value and appeal.

Outlook

Our outlook for the UAE remains positive in 2017 as oil prices are expected to regain some of the losses recorded. This is expected to boost government revenues and increase spending, particularly on infrastructure and development projects. In light of this, preparations for the Expo 2020 are likely to go ahead in full steam, with investments focused on the expansion of the metro, airport and roads network along with tourism facilities and real estate. Investments in these sectors are expected to support the overall growth of the economy and reflect positively on the real estate market.

However given the UAE's position as a regional hub, we remain cautious of external challenges which may hinder economic growth. Any decision by the US Federal Reserve to increase the interest rates further will strengthen the USD and consequently the UAE Dirham. This will likely put pressure on the cost of living and challenge the competitiveness of the UAE.

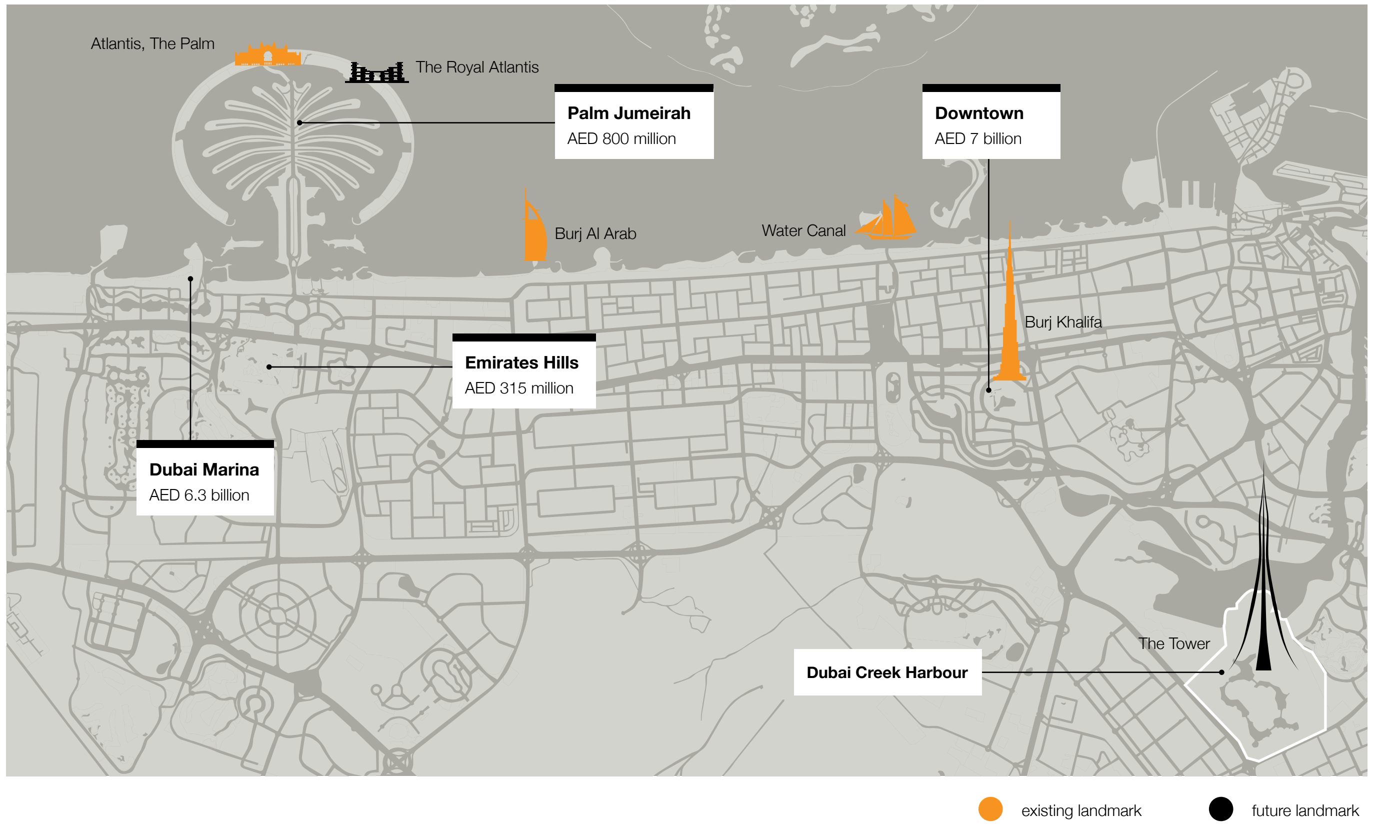
In addition, on-going political uncertainties are likely to impact the performance of financial markets, which in turn will dent investor sentiment and appetite. Among these are the new US administration and any potential protectionist measures, Brexit and the expected trigger of article 50 in March, and a stream of elections across many EU countries (France in May, Germany in September).

Top 10 Foreign buyer nationalities*

1 KSA	**6** Canada
2 India	**7** Jordan
3 UK	**8** Egypt
4 Pakistan	**9** Kuwait
5 Iran	**10** Qatar

*excludes UAE buyers

The value of residential property sold in FY 2016



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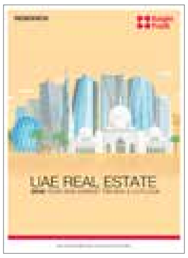

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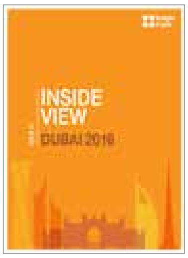

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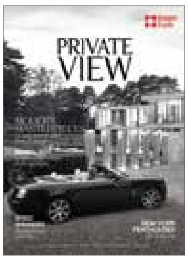

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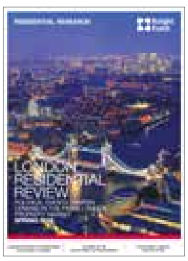
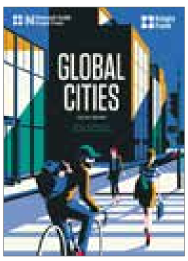


London Residential Review Spring 2016



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