

RESEARCH



# UAE RESIDENTIAL MARKET REVIEW

Q3 2017

ABU DHABI AND DUBAI'S RESIDENTIAL MARKET PERFORMANCE DIVERGES

## RESIDENTIAL MARKET PERFORMANCE IN THE UAE'S TWO MOST POPULOUS EMIRATES BEGINS TO DIVERGE

### Key findings

In Dubai's mainstream market sales prices fell by 2% in the year to Q3 2017

Mainstream transaction volumes in Dubai over the first nine months of 2017 have risen by 10% compared to the same period a year earlier

As at Q3 2017 Dubai's mainstream yields stood at 6.8% and prime yields at 5.5%

Average sales prices across Abu Dhabi fell by 9.3% in the year to Q3 2017

Despite the downturn in Abu Dhabi's market mainstream yields stood at 7.0% as at Q3 2017

### Dubai

Dubai's residential property market has transitioned through a range of stages over recent history, the latest of which shows a much more stable and mature market compared to that of even five years ago. Over this time period a combination of a strong Emirati Dirham, collapse in oil prices and high level of supply provided a correction to the market. In the present, with stable oil prices, a weakening Dirham, enhanced regulations, government commitment to infrastructure spending, the realisation by developers to phase in projects and a more robust economic backdrop have provided a stronger footing for the property market.

### Market performance

Dubai's residential market in 2017 has been a story of stabilisation after a period of weak market performance which started in early 2015. Mainstream sales prices fell by 2% in the year to Q3 2017 according to data from REIDIN.

Comparing average price change in the first nine months of the year: in 2016 the figure registered at -5.6%, over the same time period in 2017 price falls have slowed to -0.6%.

Prime residential prices over the year to September 2017 have fallen by 3.8%.

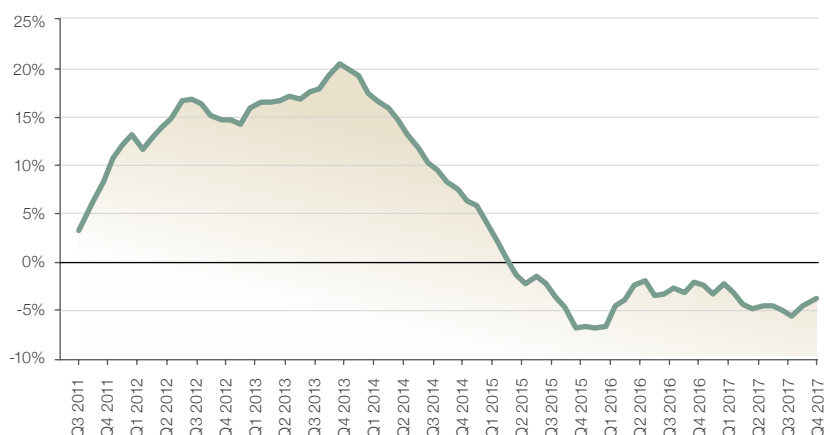
However, we may be seeing this segment of the market beginning to reach its trough with monthly price growth from August 2017 to September 2017 registering positive growth. More so in the prime market, sub-market performance has begun to diverge. In prime markets, where new supply has been limited such as Palm Jumeirah and Emirates Living we have seen price growth return over the short term, whereas areas such as Downtown where new supply is evident prices have continued to fall.



**TAIMUR KHAN**  
Senior Analyst

"Dubai continues to attract international buyers to its property market with 217 nationalities investing in the market in the 18 months to June 2017."

FIGURE 1  
Prime market performance, year-on-year % change





Despite the lacklustre market performance across both mainstream and prime residential markets, yields have remained relatively robust. As at Q3 2017 mainstream yields stood at 6.8% and prime yields at 5.5%, a year earlier mainstream yields were 0.3 percentage points higher and prime yields 0.1 percentage points higher.

**Sales**

Mainstream transaction volumes in the first nine months of 2017 have risen by 10% compared to the same period a year earlier. The total value of transactions over this period registered at AED36.86 billion (US\$10.04 billion) up 12% compared to a year earlier.

In the nine months to September 2017 prime transaction volumes have increased by 6% and the total value of prime transactions registered at AED2.27 billion (US\$ 619 million), up 9% from the same period a year earlier.

**Demand**

Dubai continues to attract international buyers to its property market with over 217 nationalities investing in the market in the 18 months to June 2017 according to data from Dubai Land Department. Emiratis continue to be the largest group of buyers. The make-up of the top five foreign nationalities remains broadly similar to historic trends with Indians leading the pack, followed by Pakistani, Saudi Arabian and British buyers. More

interestingly the composition of the top 10 nationalities by number of transactions shows the broad appeal of Dubai's property market, with more buyers not from the immediate region such as America and China becoming a more material source of investment.

**Outlook**

On balance, the outlook for Dubai's economy and real estate market remains positive despite some key risks which must be monitored and managed. Additionally we also note that price performance will continue to diverge in 2018 across Dubai, with neighbourhoods where a significant delivery of new supply is expected likely to continue to see prices soften.

As regional economies adapt to the new norm in oil prices and Dubai diversifies in line with its economic diversification strategy, Vision 2021, and government infrastructure spending continues ahead of Expo 2020, we anticipate GDP growth will accelerate in 2018 providing support for the residential market.

In the first nine months of the year we have seen the effective exchange rate of the Dirham drop circa 5% against its weighted basket of currencies. This has provided support for the residential market given the material presence of international investors in Dubai. Looking forward a key risk to market performance would be any significant appreciations of the Dollar (to which the Dirham is pegged)

due to hike by the Federal Reserve. Additionally ongoing geo-political uncertainties may also impact demand.

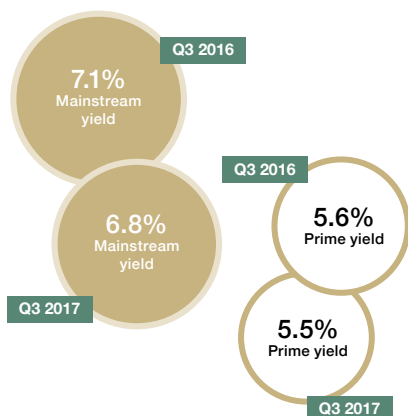
Overall the risks may be outweighed by the expectations of stronger global economic and trade growth in 2018 than previously forecast, which Dubai would certainly benefit from given its standing as a regional trading hub and safe haven.

FIGURE 4  
Top 10 buyers by nationalities to invest in Dubai's real estate market by number of transactions (January 2016 to June 2017)



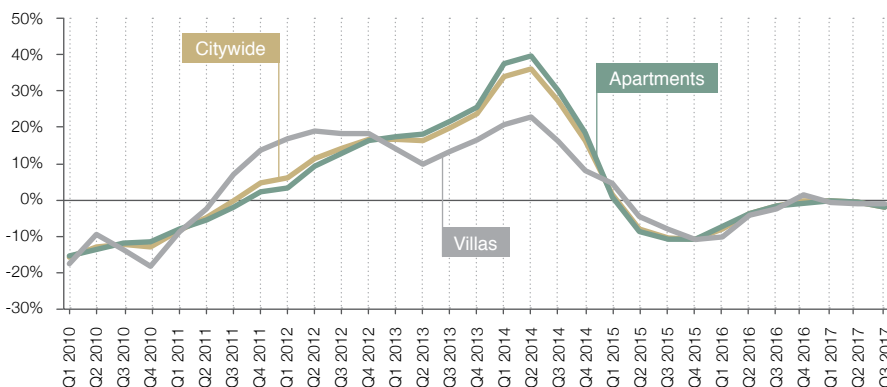
Source: Knight Frank Research, Dubai Land Department

FIGURE 2  
Dubai's yield potential



Source: Knight Frank Research

FIGURE 3  
Dubai mainstream residential, year-on-year % change



Source: Knight Frank Research / REIDIN

## Abu Dhabi

Abu Dhabi's tenuous, albeit improving, economic situation has led to numerous employers consolidating operations over the last two years, this has in turn impacted sentiment in the residential sales market over the course of 2017.

### Market performance

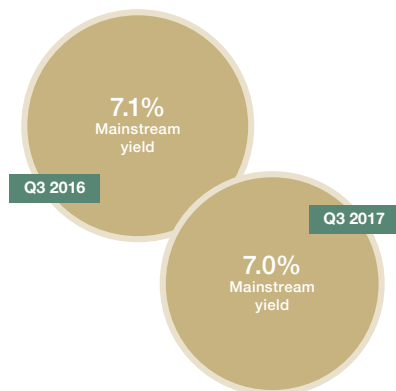
Average sales prices across Abu Dhabi fell by 9.3% in the year to Q3 2017, with average sales prices for apartments falling by 9.5% and villas by 8.6% respectively over the same time period. Quarterly data from REIDIN suggests that performance in the mainstream market is beginning to moderate, with quarter-on-quarter rate of price falls beginning to bottom out.

Despite the market downturn witnessed we have seen mainstream yields remain attractive. As at Q3 2017 yields stood at 7.0%, marginally down from a year earlier when yields were 0.1 percentage points higher.

### Outlook

Given the extent to which Abu Dhabi's economy is involved in the hydrocarbons sector, the fall in oil prices impacted UAE's largest oil producer particularly adversely in comparison to other Emirates. However the immediate scale of consolidations and restructuring seen over the recent years as a result of the downturn, has meant Abu Dhabi has begun to successfully reposition its economy. The results of this change are filtering through with some analysts anticipating Abu Dhabi to record

FIGURE 5  
Abu Dhabi's yield potential



Source: Knight Frank Research

a fiscal surplus in 2017, a sharp contrast to the situation witnessed at the start of the downturn.

Additionally with non-oil growth GDP expected to pick up and outpace oil GDP growth in 2018, on the back of stronger global trade, we anticipate headline GDP growth will continue to strengthen. These factors will in turn support the recovery in the residential sales market, however we only expect price performance to begin to improve in late 2018 at the earliest.

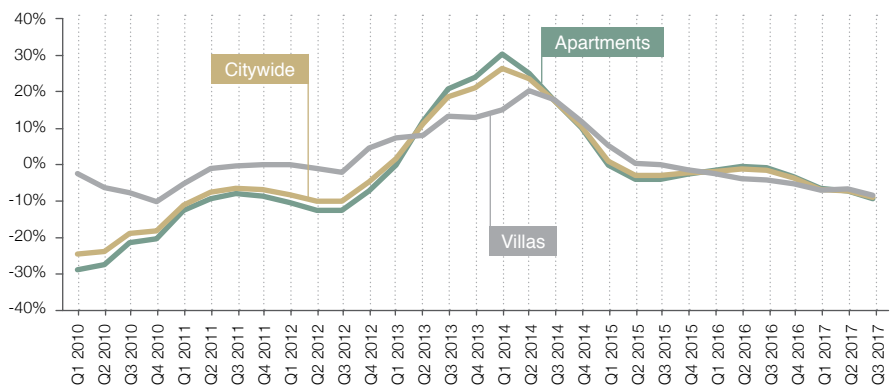
### Total returns

When discussing the property market, often the topic of conversation tends to lean towards either capital appreciation or even depreciation and occasionally yield. However, seldom do we discuss returns as a combination of these two return metrics, total returns. One reason could be due to the lack of total return indices in residential property markets. To aid decision making for investors Knight Frank has calculated mainstream total return indices for the Abu Dhabi and Dubai residential markets.

Over a five year period to Q3 2017 we find that Dubai's mainstream residential market provided total returns on 84.3%. Abu Dhabi's residential market over the same time period recorded total returns of 70.7%.

The total returns for the two Emirates begin to converge over the three year period to Q3 2017, where Abu Dhabi has recorded returns of 6.1%, marginally outpacing Dubai's figure of 5.8%.

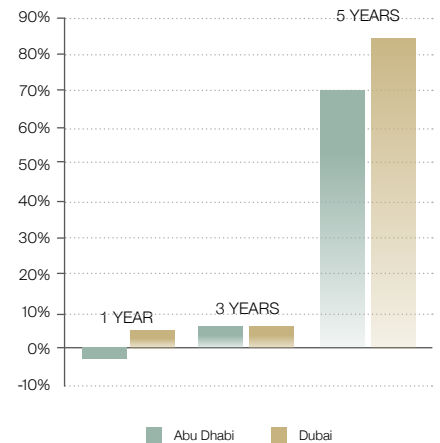
FIGURE 6  
Abu Dhabi mainstream residential, year-on-year % change



Source: Knight Frank Research / REIDIN

Finally over the year to Q3 2017 we find that the two markets' returns have begun to diverge. Dubai's market which has begun to stabilise over the last year is providing investors with total returns of 4.8%. Whereas Abu Dhabi's market, which is currently in the midst of a correction, has produced negative total returns of 2.9%. However monthly and quarterly data for Abu Dhabi is showing signs of the negative returns beginning to moderate, supporting our earlier more positive outlook in Abu Dhabi's residential market for 2018.

FIGURE 7  
Total returns



Source: Knight Frank Research

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