Education Report

Dubai | 2018 / 2019

AFFORDABILITY

REGULATORY CHANGES

EVOLUTION OF SUPPLY
Introduction

In a matter of a few decades, the emirate of Dubai has witnessed rapid transformation from a trading port, to a regional innovation hub underpinned by provision of quality infrastructure and world class educational institutions.

Through the efforts of Knowledge and Human Development Authority (KHDA), the quality of education in Dubai has significantly improved, now featuring many internationally recognised operators offering 16 different curricula to cater to the requirements of an increasingly multinational population.

In tandem with this transformation we have seen a broad range of developments which we will look to cover in this report. These topics include:

- **Affordability is relative!**
  We go beyond simply measuring affordability (in terms of monetary value) to examining it within the context of distance / time. Education experts views have been considered which allowed us to frame the parameters of ‘affordable schooling’ and redefine traditional concepts of catchment areas in Dubai.

- **Key regulatory changes**
  In this section Clyde & Co set out a high level overview of some of the key regulatory developments which affect the private school sector in Dubai and which increase the compliance obligations on operators and new entrants to the market.

- **Historical evolution of supply**
  Supply of education institutions for five key curricula has been analysed and mapped since 1997.

I hope you will enjoy this paper and wish all stakeholders success in the years to come.
Affordability is relative!

The education sector in Dubai is now at a tipping point, with aggressive marketing and tuition fee discounts symptomatic of an oversupply of schools. Pressure is expected to increase with a further 13 schools slated to open this academic year, bringing the total number of private schools in Dubai to 207.

With this drastic increase in choice, the market is now tipped in favour of consumers who are demanding quality education at lower price points. However, affordability has never been uniformly defined, nor do we know if meeting these demands is possible?

The education sector is now maturing, with 16 curricula available, price points that range from a few thousand dirhams to schools that have an approved fees of more than AED 100,000 annually and internationally-branded operators commonplace. Demand for international brands and schools to provide something out of the ordinary has driven the desire for better quality education, by a growing number of population, perceived to have large disposable income.

In the last 5 years the majority of new school openings have driven up average tuition fees. A recent report by HSBC, ranked UAE school fees as the second highest in the world, only Hong Kong. Furthermore, against a stagnated rate of growth in the economy, many schools have missed their student enrolment targets as supply has started to outstrip demand.

With more choice and increasing tuition fee levels, parents are inevitably seeking value for money, bringing the issue of affordable education under the spotlight.

In 2018, stakeholders reacted to market conditions in the following manner:

- **Private education service providers** invested in costly marketing campaigns including outdoor advertising, radio and print, and introduced disruptive pricing by reducing tuition fees, introducing discounts, and implementing various scholarship schemes.

- **The Dubai Government** issued a freeze on both private school fees and rents for those schools that rent land from its Knowledge Fund) for academic year 2018/19.

These strategies were aimed at alleviating worries of operators and parents alike, by reducing the burden of both fees and rents. These actions can be termed as stop gap measures. They don’t tackle the underlying issue of how to develop schools that are affordable in the long-term.

Affordability is relative! Arriving at a universally accepted tuition fee for the private sector that would be considered affordable by all, is an impossible task. This is because affordability is not one-dimensional, which is why Knight Frank went beyond simply measuring affordability in terms of monetary value, to rather examining it within the context of distance, or time i.e 5 km or 15 minutes travel.

In Q2 2018, we conducted a survey with education service providers; representing 56 large, small, branded and local private schools in Dubai, using the UK curriculum to enable comparisons. The aim was two-fold:

1. To identify affordable schools (price points and facilities)
2. To identify whether distance and/ or time is a relevant measure for affordability

It is important to note, the overarching condition to this survey was that responses must take into account that the quality of education is to be maintained.

Defining affordable schools (Key findings)

Participants were unanimous in their belief that providing affordable education is challenging, but confirmed it should be accessible to communities and relative to an individual’s income.

Tuition fees:

- Year 7: 77% mentioned tuition fees should be less than AED 40k and 64% indicated that tuition fee should be in the range of AED 33k to 46k
- Year 13: 70% of participants believed tuition fees should be equal or less than AED 60k

School parameters:

- Number of students: 2,000 to 3,000, with class sizes ranging from 25 to 30
- Plot size: many plot sizes were quoted but 30,000 sq m was quoted the most
- BUA to plot ratio: optimally 0.8 sq m to 1.0 sq m

Facilities:

- Essential: Cafeteria, multi-purpose hall and outdoor swimming pool were identified as being essential for an affordable school
- Can be excluded: auditoriums, tennis courts and indoor swimming pools

Salaries:

- Teacher salaries: the range between the highest and lowest basic salary was in excess of AED 100k
- Headmaster salary: salary ranges were fairly consistent

Testing distance or time as a measure under current and future market conditions

With an increasing number of different types of schools available, parents have more choice and are seeking greater value for money. Under this current scenario, we believe that our hypothesis on distance and catchment area, being the underlying factor which defines affordability, is growing in importance and was tested in our survey. Our key findings are presented below:

**Distance/Time:** The participants were requested to place the students in three brackets a) 0 to 5km b) 5 to 10km and c) 10km +

- The number of students fell evenly between the three brackets with 34% students residing 5km (Year 9)
- When international branded schools, or schools with a unique offering were excluded, the number of students in bracket (a) increased to 46% (the assumption is that people will travel a longer distance for the unique attribute)

**Catchment:** 70% of participants agreed that they have witnessed a decline in their schools’ catchment diameter, due to greater choice available. This is supported by the fact that the second most popular reason for students leaving schools is to move to a school closer to home, with relocation given as the primary reason. (Figure 2)

**Lessons learned**

The survey contained other items as well, but we noticed that each participant was drawing from their own experiences which did not necessarily tally with the rest. However, what stands out from the survey is that the population of most relevance lies within a 5 km radius of the school, unless the school has a unique USP. The following two pages include Dubai’s education sector map presenting the current situation of tuition fee price points and student density across Dubai.

We expect catchment areas to continue reducing, driven by the increase in the number of schools and choices available. It will be what makes the school most attractive, with the exception of schools that offer certain USPs, which can still command a wider radius because they are serving a particular target market.

However, as competition continues to increase, even these schools will most likely rely more on catchment area than the USP they are offering.

Education service providers and real estate developers both have lessons to draw from this:

- **Education service providers:** Target market is the one on their doorstep. Therefore, new schools and existing schools considering repositioning should invest in undertaking a catchment area analysis to understand the population size, income profile, nationality mix, competition and above all, requirement of residents, as it will help the school create a value proposition, which in turn will ensure long-term profitability.

- **Real estate developers:** Master planned communities during their planning phase need to consider the target market for their development. This will help determine the type and size of school and attract an appropriate education service provider. Empirical evidence suggests that planning for the right school positively affects other real estate offerings by way of improved occupancy and yields.

**FIGURE 1**

The influence of distance or time on catchment area

- Total sample: 34%
- Excluding foreign branded schools and schools with USP’s: 33%
- Removing price sensitive schools: 23%
- Excluding high income brackets: 21%
- Group 1: 53%
- Group 2: 27%
- Group 3: 20%

**FIGURE 2**

Has your school catchment decreased over time?

- Source: KHDA, Knight Frank Middle East
Using data published by KHDA, Knight Frank’s GIS Team has constructed a heat map to show the spread of schools in Dubai by seven broad fee brackets (Figure 3) ranging from fees which fall below AED 23,000 per annum (dark blue) to fees which are above AED 63,000 per annum (dark red).

Looking at the heat map there are a few areas where the concentration of the highest fee schools is acceptable given the income profiles of these communities. This is particularly the case for the vast majority of these schools which are in the top 20% of the market (by fees) where occupancy is around 77% (if schools that commenced operations in academic year 2017/18 are removed, then the occupancy level increases to 84%). As noted earlier in this report, this number is slightly distorted by the fact that some of these schools have USPs which will attract demand from a wider catchment area, meaning the impact of the 5 km is not as relevant under current circumstances.

Additionally, there are a large number of schools which are priced towards the higher fee brackets of AED 52,001 and above and are located in what are known to be middle income communities. As a result of this mispricing, we have seen that occupancy in the AED 52,000 to AED 83,000 price point stands at around 69% compared to 84% in price points below this level. As the number of schools in Dubai continue to grow, pressure may increase on these schools that are located in middle income communities.

Source: KHDA, Knight Frank Middle East
Figure 4 shows the density of number of students per school in Dubai. We have used five broad ranges with the dark blue circles showing schools which have less than 1,000 students and the dark red circles reflecting schools which have over 4,000 students.

First, we note that almost 90% of schools in Dubai have total student numbers below 3,000 and 61% have total student numbers below 1,500 students. There is also a clear trend in schools which fall in the fee brackets of AED 36,000 and below, these schools are likely to have a higher total student population. We can see this is the case in the majority of schools in areas such as Bur Dubai, Deira and International City. Whereas schools where fees are in the higher brackets (over AED 63,000) tend to have enrolments of 1,000 students or fewer. Furthermore, in this higher fee bracket where the school is not a foreign branded school we see this number fall even further.

We also note that occupancy on average, is significantly higher in schools where the student capacity is higher. Schools which have a capacity of up to 1,500 students have recorded occupancy at 76%. Schools having a total student population higher than this, recorded occupancy of over 92%.

The data clearly shows that affordability is relative to the community. Schools with fee points matching the community income profile are maintaining high enrolment and occupancy, and these schools are likely to record a desirable level of profitability.
Delivering an affordable school comes with its own challenges. The K-12 sector in the UAE is heavily regulated and this affects both the operation of schools and the establishment of new schools. The regulations apply regardless of the school fees to be charged, and there is an increasing cost associated with regulatory compliance that an affordable school operator will need to take into account. This section highlights some of the key regulatory developments that are relevant to the private K-12 sector.

International Branded Schools in Dubai

Where an operator or investor is looking to establish a school in Dubai that will operate under an existing international school brand, the following restrictions and requirements apply.

The existing international school needs to be involved in the licensing process, regardless of whether they will have ownership in the Dubai school. The governing body of the school will also need to provide a commitment to KHDA (by way of a board resolution) that it will be responsible for a list of specific education matters, that termination and closure of the Dubai school is subject to KHDA approval, and that the school will be responsible for settling financial disputes in relation to parents and staff on termination.

Understandably this can cause some concerns with school governors, and we have assisted a large number of school governing boards to understand the implications of this resolution and its impact on the school and the governors.

The school will want to ensure they have the right to influence the Dubai school or make it comply with KHDA requirements.

We are seeing an increasing trend of international schools taking a minority stake in the Dubai school to mitigate any perceived risk flowing from the board resolution, and we expect this to continue.

The KHDA also has restrictions on the closing of schools, or the termination of brand licence agreements, as they do not want the international school to walk away, or the Dubai school to close, without their approval. The main purpose of this is the welfare and safety of the students.

Teacher Licensing and Good Conduct Certificates

In the first quarter of 2018, the UAE Government launched the Teacher Licensing System (TLS), with the aim of ensuring both a high quality and ‘uniform’ standard of teaching staff within the region, notwithstanding the fact that teachers’ qualifications in the UAE are estimated to be from around 180 countries across the world.

The TLS is being rolled out in phases but will become mandatory for every teacher in the UAE in 2021. In order to obtain their Licence (issued by the Ministry of Education), teachers will have to sit exams and undertake professional development training across four ‘standards’ - (i) Professional and Ethical
This section presents a summary analysis of 5 key curricula along with the locations of schools in 1997, 2007 and 2017. The curricula analysed are:

- **UK Curriculum Schools**
- **Indian Curriculum Schools**
- **American Curriculum Schools**
- **IB Curriculum Schools**
- **Ministry of Education Curriculum Schools**

### Historical evolution of supply

This section presents a summary analysis of 5 key curricula along with the locations of schools in 1997, 2007 and 2017. The curricula analysed are:

- **UK Curriculum Schools**
- **Indian Curriculum Schools**
- **American Curriculum Schools**
- **IB Curriculum Schools**
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### School Fee Freeze

In June 2018, the Dubai Executive Council announced that private schools in Dubai would not be permitted to raise their school fees for the academic year 2018/2019. The announcement came at a late stage in the academic calendar after issuance of KHDA approvals to schools in relation to fee increases.

While the ruling was welcomed by parents, it has caused practical challenges for schools who had already forecasted and/or implemented their 2018/2019 financial budgets on the basis of a fee increase. As a general rule of thumb, the better a school performs in the annual KHDA inspection, the more likely they are to be awarded the right to increase their fees. Additionally, school fees in Dubai have, historically, risen year on year.

It is not yet known whether the school fee freeze will be extended to the next academic year, or whether it will be replicated to other Emirates. Many schools have escalating rent charges in their operating leases with landlords, and now is the time for schools and landlords to look at those arrangements to ensure the sustainability of the school during the coming period.

### School Transport

Education institutions naturally have extensive obligations in relation to the health and safety of their students. Safety obligations on school transport have become an increasingly topical issue following the occurrence of a number of tragic events. Notwithstanding the fact that they may use an external provider, schools themselves remain responsible for the health and safety of their pupils and employees on school transport. Throughout the course of 2018, the UAE has launched a number of initiatives that aim to ensure safe transportation for students. The Dubai Roads and Traffic Authority has, for example, issued the Guiding Manual of School Transport in the Emirate of Dubai which sets out the expected standards and obligations of transport operators and schools.

It is anticipated that more legislation that is prescriptive will be enacted in the near future. In the meantime, schools must ensure that they undertake sufficient due diligence when appointing a third party transport provider.

### Data Protection

Data protection remains a hot topic globally, and the UAE is no exception. Although privacy laws are being developed, those working and living in the UAE are becoming more aware of the risks of not protecting their own data. It is only a matter of time until substantive regulations are enacted and now is the time to start implementing best practice.

In particular, schools should be mindful of the way in which they collect information about pupils, employees, parents, governors and others. It may be that consent requirements will be introduced in line with data protection laws globally, whereby those giving their information must expressly give consent for the information to be used for a particular purpose. Schools may also need to consider whether staff will need further training on data protection matters, and whether information about pupils can be given readily, even to their parents.

“Operators and Investors need to understand the regulatory framework in Dubai to ensure compliance. This affects not just the operations of the school, but also the structures available to establish the school in the first place.”

_{Operators and Investors need to understand the regulatory framework in Dubai to ensure compliance. This affects not just the operations of the school, but also the structures available to establish the school in the first place._}
In academic year 2018/19, six schools will be introduced to the system, increasing the number of schools to 85. UK branded schools aim to provide students similar educational experiences in terms of quality. It caters to almost the entire socio-economic spectrum of society, with tuition fees ranging from a few thousand Dirhams annually to schools in excess of AED 90,000 per annum.

What makes the UK curriculum appealing to the Dubai market?

UK curriculum schools are the most prominent in Dubai, in terms of the number of students (34%) and number of schools (38%).

- Global standardised curriculum and examination system that eases transferability between schools and countries - a factor that is appealing to the expatriate community.
- It caters to almost the entire socio-economic spectrum of society, with tuition fees ranging from a few thousand Dirhams annually to schools in excess of AED 90,000 per annum.
- UK branded schools aim to provide students similar educational experiences in terms of quality.

In academic year 2018/19, six schools will be introduced to the system, increasing the number of schools to 85.
The American curriculum schools have a market share of almost 18% for both the number of students and schools. In the last three academic years, student numbers were almost constant, which has resulted in a gradual decline in market share from 22% in academic year 2009/10 to 18% in 2016/17.

The majority of the schools have received a DSIB rating of “acceptable” and “good” with only one school maintaining an “outstanding” rating.

In academic year 2018/19, two schools will be introduced to the system, increasing the number of schools to 36.
### Indian Curriculum Schools

**FIGURE 19**
Academic year 2016/2017 snapshot

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of schools (branches excluded)</td>
<td>33</td>
</tr>
<tr>
<td>Number of students</td>
<td>79,579</td>
</tr>
<tr>
<td>New schools established since 2007</td>
<td>16</td>
</tr>
<tr>
<td>Number of students attending schools with rating good and above</td>
<td>41,150</td>
</tr>
<tr>
<td>Number of schools with improved DSIB rating 2016 vs 2017</td>
<td>nil</td>
</tr>
<tr>
<td>Weighted average fee in AED*</td>
<td>10,766</td>
</tr>
</tbody>
</table>

Source: KHDA, Knight Frank Middle East

*Based on median fee range for year 6 & 7

**FIGURE 20**
Number of students and schools by DSIB curriculum rating

**FIGURE 21**
Number of students & schools by year 6 & 7 fee brackets, AED

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Indian curriculum schools have maintained 30% of the student population. In terms of the number of students per school, Indian schools are usually twice the size of American or UK curriculum schools. Indian curriculum schools not only serve the Indian community, but also cater to the population of the subcontinent.

Factors that draw parents are:

- Standardised curriculum and examination system
- Competitive tuition fees - making it appealing to a wider population base
- High focus on core subjects

Indian branded schools aim to provide students similar education experiences in terms of quality. In the academic year 2018/19, two schools are to be introduced to the system, which will increase the number of schools to 36.

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**FIGURE 22**
Number of schools and students by year 6 & 7 fee brackets, AED

Source: KHDA, Knight Frank Middle East
The International Baccalaureate is the fastest growing curriculum within Dubai’s education space. It has witnessed a growth rate of 21.9% CAGR since academic year 2009/10, which led to market share increasing from 2% in academic year 2009/10, to 6% by 2016/2017.

Factors that draw parents to the system are:

- Standardised examination system that is internationally recognised
- It is considered as a system that will instil attributes of independent learning in children
- Certain US colleges provide credits to students who have sat through their IB examinations

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Ministry of Education Curriculum Schools

Designed to cater for UAE nationals’ requirements, the number of private Ministry of Education curriculum schools has declined from 15 in 2009/2010 to 11 in 2016/17, resulting in the number of students also declining, albeit marginally.

As time progresses, these schools are faced with increased competition as a result of improving standards in public sector schools and also options available to parents to enrol their children in schools offering western curricula.
FIGURE 39
Number of private schools

<table>
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<td>153</td>
<td>158</td>
<td>169</td>
<td>173</td>
<td>185</td>
<td>194</td>
<td>207</td>
</tr>
</tbody>
</table>

TOTAL 148 148 148 153 158 169 173 185 194 207

Source: Knight Frank Middle East

FIGURE 40
Student population

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>182,818</td>
<td>193,323</td>
<td>207,118</td>
<td>225,099</td>
<td>243,715</td>
<td>255,235</td>
<td>265,299</td>
<td>273,599</td>
<td>281,432</td>
</tr>
</tbody>
</table>

TOTAL 182,818 193,323 207,118 225,099 243,715 255,235 265,299 273,599 281,432

Source: Knight Frank Middle East

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