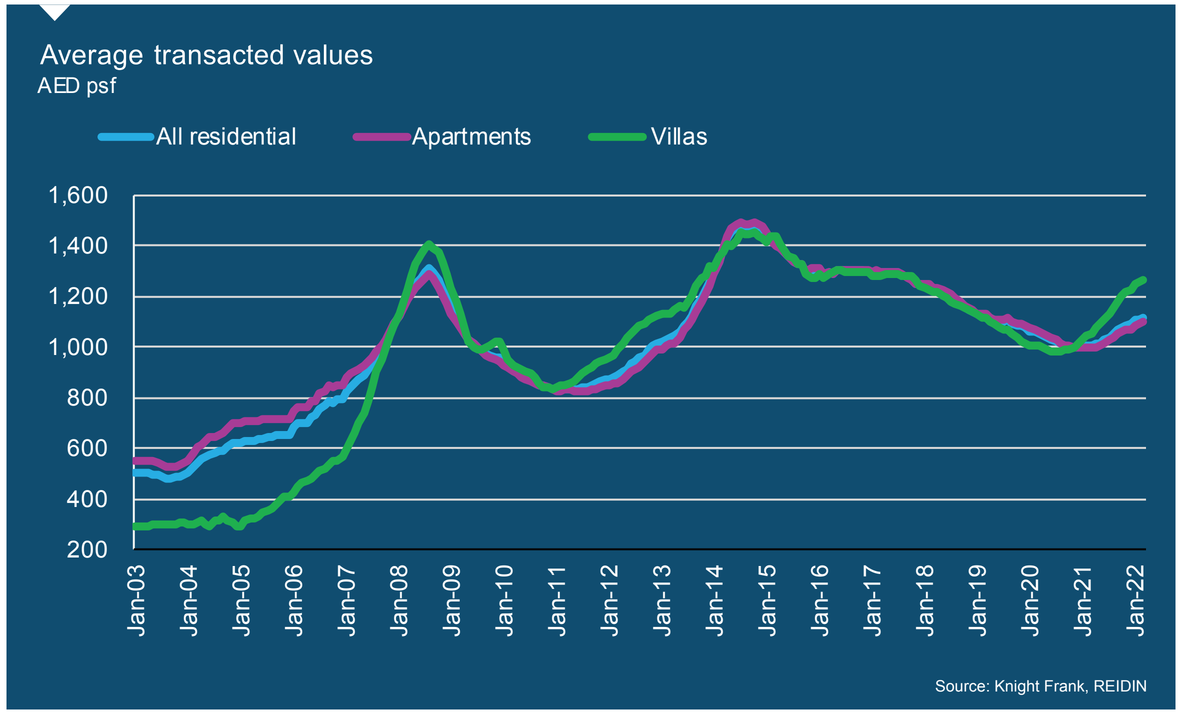
Dubai Residential Market Review

Summer 2022

THE 'ROARING TWENTIES' CONTINUES

House prices in Dubai grew by 10.6% last year and rose by a further 2.6% during the first three months of 2022. The latest increase leaves values 11.3% higher than Q1 2021; the highest rate of annual growth since January 2015.



Source: Knight Frank, REIDIN

The positive market sentiment, driven by the government's world-leading response to the pandemic, coupled with the successful hosting of the World Expo, the reopening of travel corridors and Dubai's global safe-haven status continues to underpin the market's rebound. The introduction of a wide-range of residential visa options designed to shift Dubai's long-held mantra of 'build it and they will come' to 'build it and they will come... and stay' also appears to be attracting more long-term talent.

Despite the sharp turn-around in prices however, values are still, on average, about 25% below their 2014 peak, but are 5.2% higher than they were at the start of the pandemic, but villas are now just 12.9% below the last market high in 2014.

As we have reported previously, villas remain at the centre of attention, with prices climbing by 3.2% between January and March 2022, leaving values 20.2% higher than Q1 2021. While the race for space persists as a key driver of domestic demand for bigger homes, international buyers too remain fixated with securing a home in Dubai as evidenced by the relentless demand from international HNWI's looking for second homes. This is a significant shift from previous cycles where buy-to-let investors and property-flippers flooded the market.

"International buyers remain fixated with securing a home in Dubai as evidenced by the relentless demand from international HNWI"

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COMING OFF THE BOIL?

As we detailed in our Dubai's COVID Comeback white paper, evidence was already starting to emerge of a slowdown in the rate of the extraordinary price increases towards the end of last year. The emerging disparity between buyer and seller expectations has persisted in some areas, which is causing the pace of house price growth to show signs of slowing, just as we forecast.

Indeed, looking at the overall villa market, price growth slowed to 3.2% during Q1, down from 3.4% in the final three months of 2021 and also the slowest quarterly increase since December 2020.

This trend is however not uniform across the board, with the city's most expensive locations still locked in Dubai's version of the 'Roaring Twenties'. This outperformance is being fuelled in large part by the influx of overseas UHNWI capital that continues to target Dubai's most luxurious homes.

On the Palm Jumeirah, for instance, Q1 alone registered villa price growth of 10.9%, with the priciest villa ever sold in Dubai transacting on the iconic island during March for a record AED 280 million. Villa prices on the Palm Jumeirah have increased by 38.6% in the last 12 months.

Similarly, in the exclusive Emirates Hills, the rate of annual villa price growth stood at almost 20% at the end of Q1, with the period between January and March registering a rise of 6.5%.

Other villa submarkets too have begun to experience a resurgence in demand. More affordable locations, in terms of price per square foot, such as Arabian Ranches (AED 1,150 psf) and Dubai Hills Estate (AED 1,426 psf) have also seen sharp price increases in the last 12 months of 24.2% and 26.1%, respectively.

Source: Knight Frank, REIDIN

STAR PERFORMING MARKETS

This outperformance at the top end of the villa market began at the start of the pandemic and is showing no signs of slowing. And this applies to both high end apartments, as well as villas. In fact, looking at the most expensive apartment submarkets reveals that Downtown (23%) and the Palm Jumeirah (21.5%) have experienced the steepest increases in values since the onset of COVID-19.

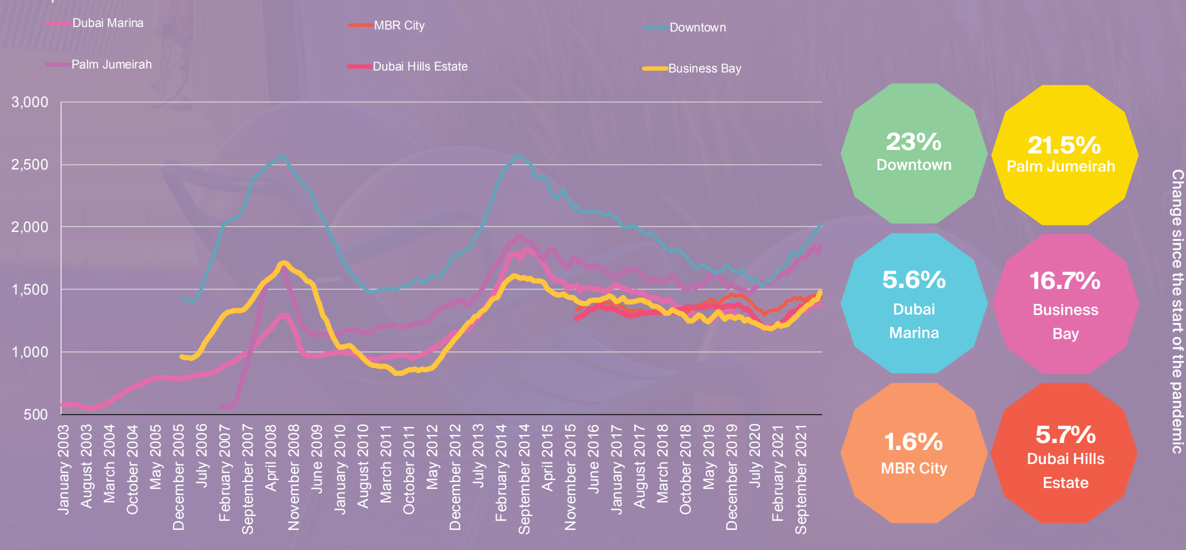
Similarly, for villas, the star performers include the Palm Jumeirah and District One, where prices have risen by 45.4% and 35.8%, respectively, over the last two years.

> **The city's most expensive residential locations are still locked in Dubai's version of the 'Roaring Twenties**

This recent growth means these two submarkets have also experienced strong house price increases in the last two years. While the top end of the market is being fuelled by the global elite, more affordable areas are being targeted by domestic buyers.

Price performance - apartments

AED psf



Source: Knight Frank, REIDIN

At the more affordable end of the price spectrum, growth has been more subdued. In Dubai Marina for instance, apartment prices have increased by just 5.6% since Q1 2020.

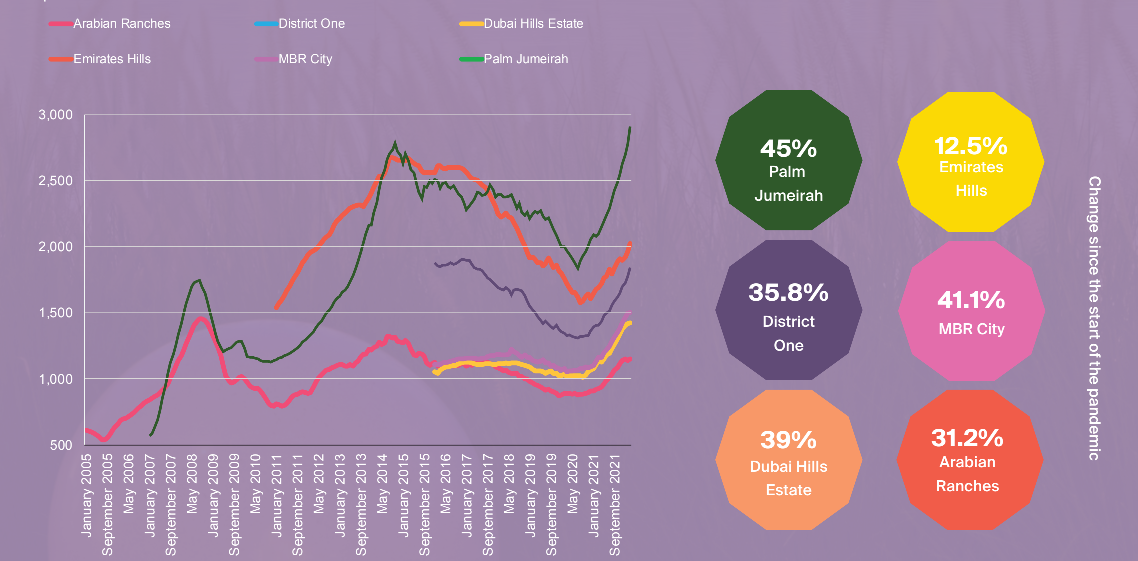
Dubai Marina is an interesting submarket as it has often been seen as the poster child for Dubai's residential market; however, prices have been slow to climb since the onset of Covid-19. With almost AED 7bn worth of transactions last year, it accounted for just 6% of all deals in the city. Aging buildings and increasing traffic congestion are aiding the outperformance of other submarkets. Business Bay, for instance, where the completion of major traffic infrastructure works such as The Parallel Roads Project, the completion and occupation of residential buildings, improved access to Downtown and the growing concentration of office workers is helping to fuel the emergence of a vibrant community.

At AED 1,475psf, transacted prices in Business Bay have edged past Dubai Marina, lifted in part by the growing number of high-end home sales, which are being underpinned by the growing clutch of luxury branded residential projects in the area ranging from The Dorchester Collection and The Ritz Carlton, to Mama Shelter and Mr. C Residences. These brands and indeed, property offerings, are not readily available in Dubai Marina.

Furthermore, the proximity of Business Bay to Dubai's primary triad business districts of the DIFC, Sheikh Zayed Road and Downtown, is further boosting the area's appeal.

Price performance - villas

AED psf



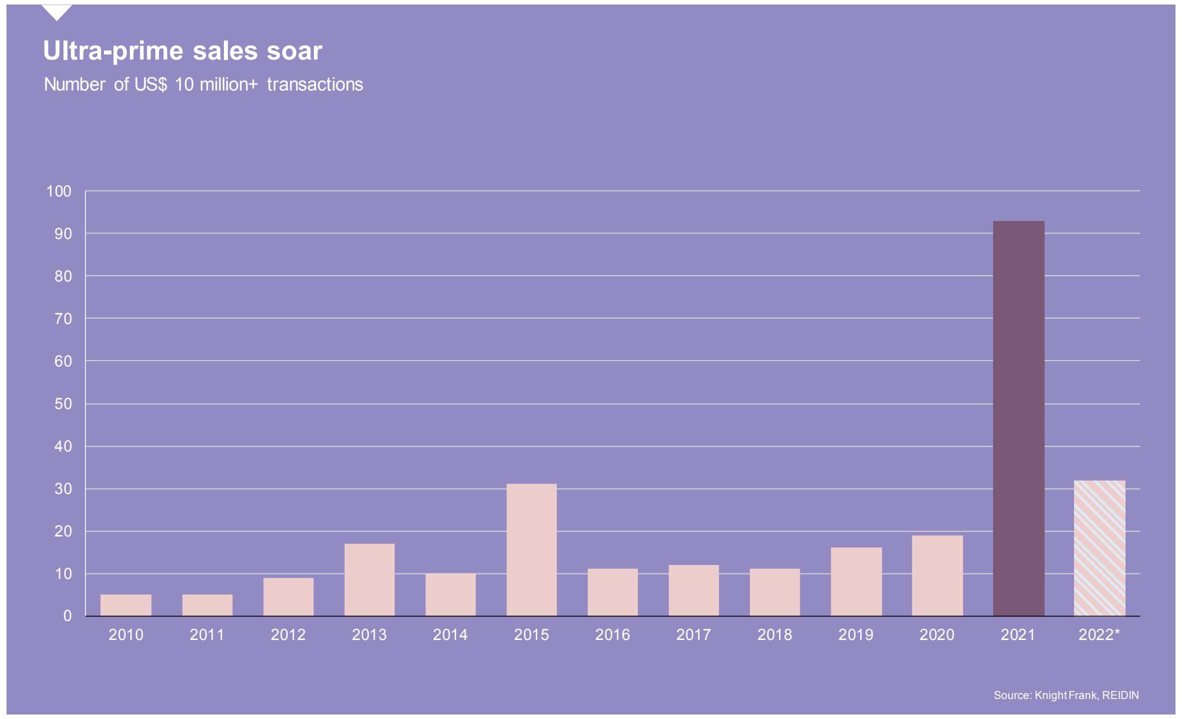
PRIME MARKET CONTINUES TO BOOM

Elsewhere, at the very top of the market, Prime prices continue to accelerate rapidly. Prime residential values, encompassing the Palm Jumeirah, Emirates Hills and Jumeirah Bay Island, have surged by 58.9% over the last 12 months.

The Palm Jumeirah and Emirates Hills continue to cement their iconic status, with global buyers continuing to jostle for an address in Dubai's most exclusive enclaves. Villa prices on the Palm Jumeirah have increased by 38.6% in the last 12 months, for instance.

It is worth noting however that average prime transacted prices stand at c. AED 2,700 psf. This positions Dubai as one of the most affordable prime markets in the world. Indeed, US$ 1 million buys c. 1,330 sqft of prime residential real estate in Dubai, about four times more than London or New York, adding to the emirate's appeal.

In addition, there were a record breaking 93 ultra-Prime home sales in 2021 – these are homes priced at over US$10 million. During Q1, the market has recorded another 32 ultra-Prime deals, exceeding the second best annual total set in 2015.



Ultra-prime sales soar

Number of US$ 10 million+ transactions

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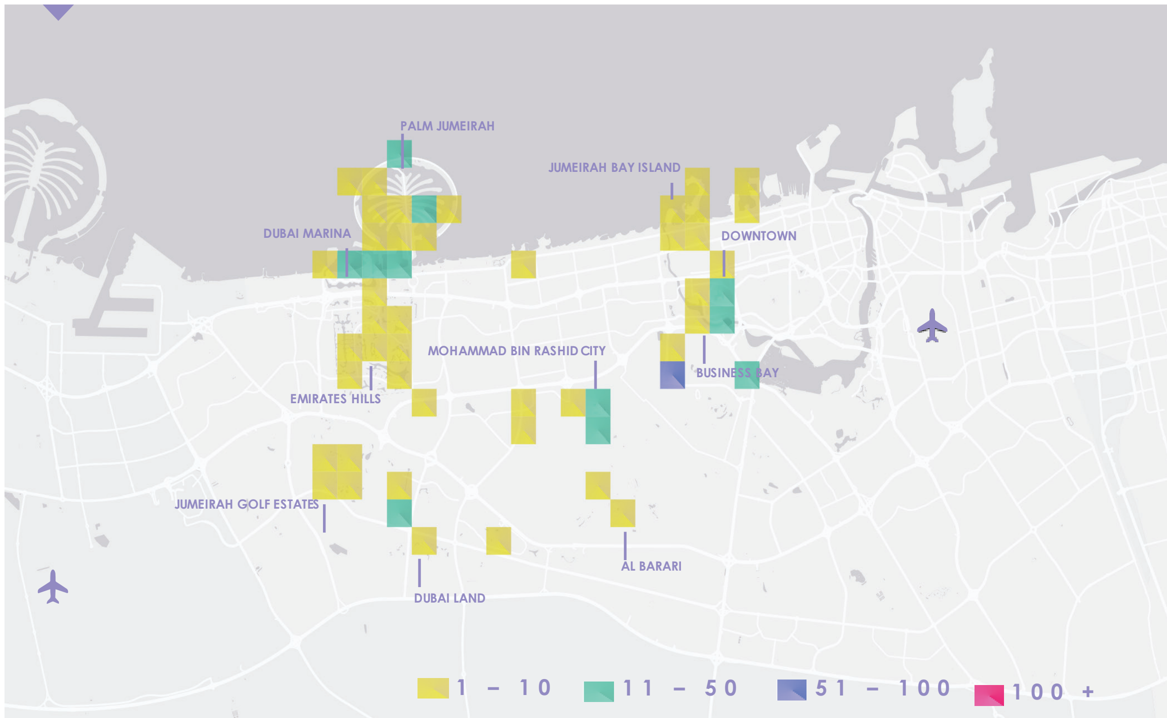
SUPPLY THREAT?

We forecast another 88,000 units will enter the market by the end of 2025, with over 50,000 homes due to be completed during the remainder of 2022. Just 25% of the homes expected by 2025 are forecast to be villas.

The impact of the supply pipeline on the market's outlook needs to be segmented by both property type, as well as location. Through to the end of 2025, just 8 new villas are expected to be built in Dubai's prime Residential areas, hinting strongly at continued outperformance of villas at the very top of the market as there is nothing to suggest an easing of the luxury home drought any time soon.

> **"There were a record breaking 93 ultra-Prime home sales in 2021."**



Source: Knight Frank, REIDIN

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RESIDENTIAL MARKET REMAINS RELATIVELY INSULATED FROM INFLATION

Elsewhere, the rising inflation poses a limited threat to Dubai's residential market.

The UAE's fiscal policy correlates with the US, and the recent 50 basis point hike in interest rates to 2.25% does mean higher outgoings for mortgaged households going forward, however it remains comparable with other international prime markets.

What's interesting is that mortgaged buyers for villas and apartments account for just 18% of Dubai's residential market, by value, at present. Last year the figure was nearer 40% and in 2007 just over 50% of transactions were financed.

While this appears to be a decrease in residential mortgage lending, as at the end of May there has been almost AED 38 billion of financing extended across all real estate asset classes.

Extrapolating the number of transactions, we have seen so far this year, 2022 could be on course to see the second highest level of mortgaged deals in the last five years for the entire real estate market. The main challenge is for banks to keep pace with the current growth of the market.

For the residential market however, the bulk of deals at the top end of the price spectrum are cash purchases, in large part due to the unrelenting influx of ultra-high net worth capital targeting Dubai's most expensive homes. So, with cash remaining king, the risk to the housing market appears to be low for now.

Furthermore, with house price growth in Dubai this year expected to hover at around 5-7% for the mainstream market and 12-15% for the prime markets, residential property in the emirate is still an excellent inflation hedge.

Further detail on the impact of rising inflation on Dubai's residential market can be found in our recently published whitepaper, so please click here to download your copy.

Expert view:

"Despite rising interest rates, Dubai's residential mortgage market continues to be very active. In the past twelve months, the best available 3-year fixed rates have increased from 2.60% to 2.99%, representing an increase of circa 15%. However, average rents have increased by a similar amount over the same period. As many of our clients have recently commented to us 'it still makes sense to buy a property due to the rise in rental costs'. In fact, with rents up by 12% for apartments and 23% for villas in the last 12 months, transitioning to home ownership is still more attractive than renting."

- *Ashley Bayliss, Partner - Head of Mortgage & Debt Advisory*

RENTS CLIMB

In Dubai's residential rental market, rents have climbed almost as sharply as capital values, limiting yield compression. Indeed, residential yields in Dubai have experienced marginal drops due to the rapid rebounding in sales prices over the last 12 to 18 months, however with lease rates also starting to recover, yields are climbing once more.

Villa yields are currently hovering around 5.4%, up 20 basis points on 6 months ago. Similarly, apartment yields have climbed by 30 basis points to 6.3% over the same period.

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The top of the market has experienced the steepest gains, with rents for villas on the Palm Jumeirah increasing by almost 38% in the last 12 months and by just over 58% since the start of the pandemic. More affordable villa locations are seeing similarly high growth in lease rates. At The Springs, for instance, average lease rates have climbed by nearly 22% in the last 12 months, with rents at Arabian Ranches (22.8%) rising by a similar amount.

"Unlike the sales market, apartments across the board are being subjected to sharp increases in average lease rates."

And unlike the sales market, apartments across the board are being subjected to sharp increases in average lease rates. Downtown (29.4%) and the Palm Jumeirah (39.6%) lead the pack, but overall, apartment lease rates are still -0.7% down on pre-Covid levels and stand some 31% lower than the last market peak in 2015.

Villas on the other hand have seen average rental rates rise by close to 24% since the pandemic began and are now just 14.9% down on the last peak in 2015.

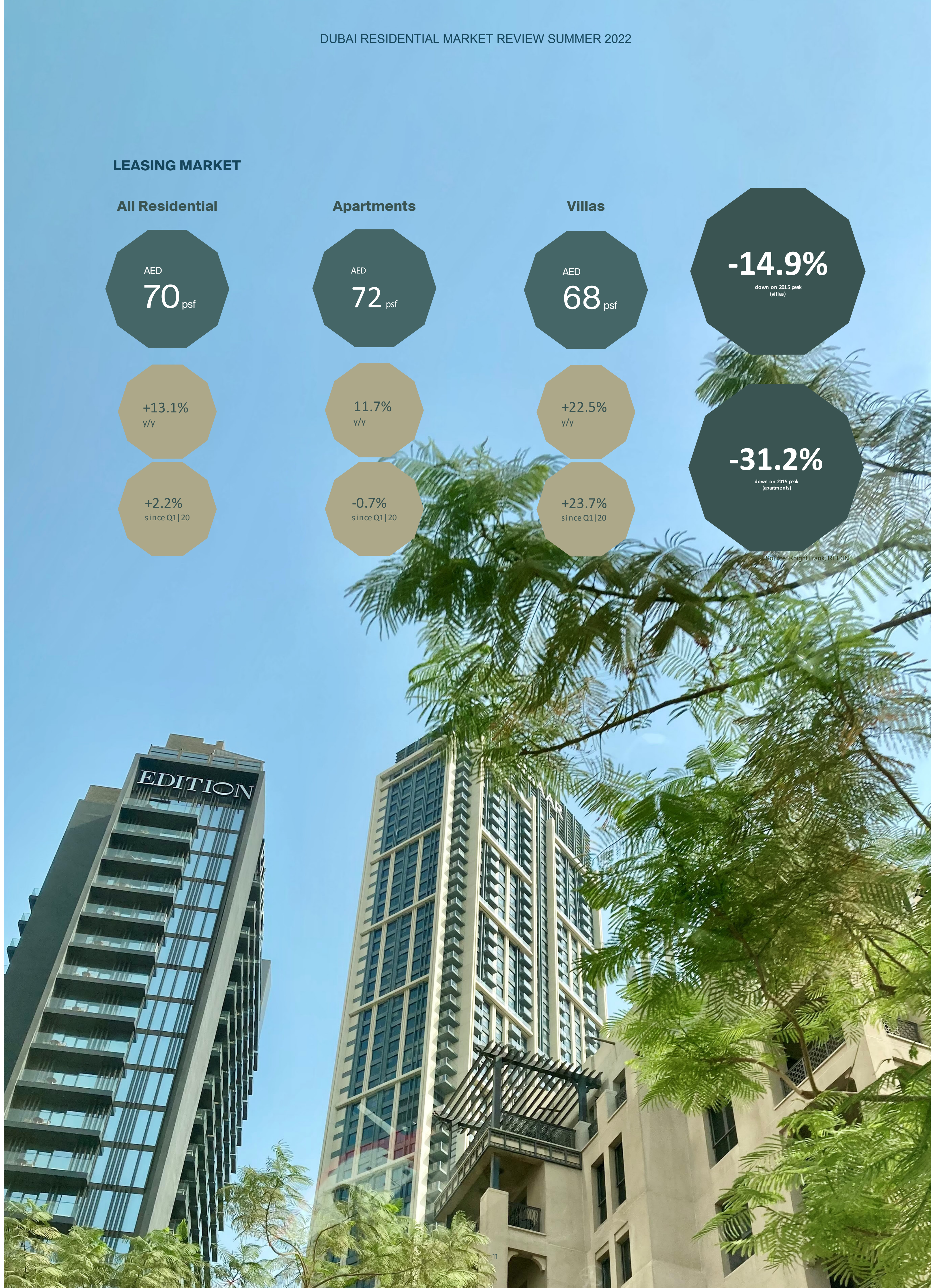
LEASING MARKET

All Residential	Apartments	Villas
AED 70 psf	AED 72 psf	AED 68 psf
+13.1% y/y	11.7% y/y	+22.5% y/y
+2.2% since Q1|20	-0.7% since Q1|20	+23.7% since Q1|20

-14.9% down on 2015 peak (villas)

-31.2% down on 2015 peak (apartments)

Source: Knight Frank, REIDIN



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