

RESEARCH

A wide-angle photograph of the Dubai skyline at sunset. The Burj Khalifa is the central focus, its spire reaching into a sky filled with soft, pink and orange clouds. The city's other skyscrapers are visible on either side, their silhouettes reflected in the calm water in the foreground. The overall color palette is dominated by the warm tones of the sunset and the cool blues of the sky and water.

DUBAI RESIDENTIAL INSIGHT

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WHY IS THE MAINSTREAM RESIDENTIAL MARKET OUTPERFORMING THE PRIME
SEGMENT IN DUBAI?

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With activity in the market slowing, being realistically priced is of paramount importance for a motivated seller.

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After entering positive territory in mid-2011, annual residential price growth in Dubai's mainstream segment has been very strong indeed. That said, after peaking at 35% at the end of 2013, the growth rate has been weakening.

The deceleration in price growth can be attributed to a combination of higher transfer fees and the mortgage caps, both of which came into effect in the final quarter of last year. However, the new rules have impacted Dubai's luxury homes market – comprising apartments and villas worth AED 10 million and over – to a much greater degree, with prices in Q2 2014 rising by a relatively modest 6.3% y/y. By comparison, the mainstream segment saw a 24% y/y increase. So what are the reasons for the mid-range part of the market outperforming?

First, established, mainstream locations such as Dubai Marina remain very popular among western expatriates and continue to see healthy demand and thus price growth. That in turn has led some investors to look elsewhere for value, including newer developments

such as Jumeriah Village, Dubai Sports City and Dubai Silicon Oasis, where prices are rising off a relatively low base. Therefore with demand for residential property remaining strong in both newer, as well as more established mainstream locations in Dubai, prices in this segment continue to post strong gains.

Second, the new mortgage rules implemented by the UAE Central Bank are stricter for those buying residential property worth over AED 5 million. For example, if a first-time, expatriate buyer was to purchase a property above that value, they would need to raise a 35% deposit. By comparison, the same buyer looking for a property worth less than that amount would need a down payment of 25% (in both cases though, the size of the deposit required is higher than a year earlier, when approximately 15% was the norm). Thus, while the new mortgage caps have hit the residential market as a whole, they have had a lesser impact on the mainstream segment.

Third, after halving between 2008 and 2010, both mainstream and luxury home prices have since largely reversed their

previous falls. However, rents in the latter segment haven't kept pace, which unsurprisingly has led yields to harden. By comparison, as a result of a stronger recovery in rents, mainstreams yields continue to look relatively attractive to investors.

Finally, Dubai's strong economic conditions and buoyant labour market continue to attract foreigners in their droves. Since this rising population will need decent (and not always luxurious) accommodation, we expect demand to outstrip supply in the short-term. All else equal then, the mainstream residential segment is anticipated to outperform prime over the next 12 months.

Buyer Nationalities

Recent data from Dubai Land Department revealed that, in the first half of 2014, a number of key nationalities dominated real estate investment activity in the emirate. UAE nationals, for example, purchased AED 12.6 billion worth of property in H1 2014 – almost double the amount spent by Saudis (AED 3.4 billion), Qataris (AED 1.5 billion), Kuwaitis (AED 839 million), Omanis (AED 482 million) and Bahrainis (AED 247 million) combined. Over the same period, Indians invested close to AED 10.5 billion in the emirate, while British and Pakistani nationals spent AED 5.8 billion and AED 4.5 billion, respectively.

What's more, between January and June 2014, Indian, British, Pakistani and GCC investors accounted for around four-fifths of all real estate transactions in Dubai; by comparison, the same were responsible for just over three-fifths of total investment in 2013 as a whole. The rise in share was down to a combination of greater appetite from these key nationalities, as well as lower levels of investment from elsewhere. Overall however, the total amount invested in the emirate's property market in H1 2014 was AED 50 billion – equivalent to 44% of the sum spent in 2013 as a whole. This suggests that, by last year's standards, real estate investment activity softened in the first half of this year, which is consistent with the current trend of slowing annual residential price growth in Dubai. It is also worth noting that Ramadan – a very quiet month for the market – largely fell in the second half of this year; all else equal, that points to H2 2014 being weaker than the preceding six months.

Credit Lending Survey

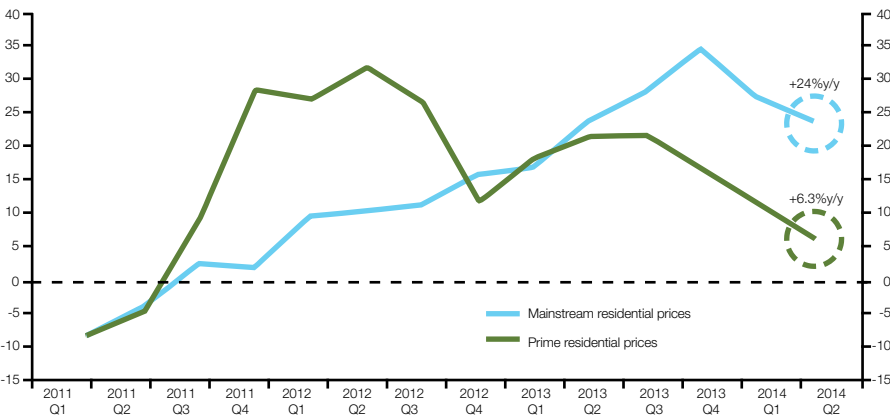
The UAE Central Bank's Q2 2014 Credit Sentiment Survey showed that banks and financial institutions' willingness to lend to owner occupiers, investors and "others" (those looking to refinance or renovate, for example) had increased healthily in the three months to June 2014, when compared with the preceding quarter. Survey respondents were also



positive about the very near-term, with a net balance of between +10% and +15% expecting their bank/financial institution to be more inclined to extend credit to the residential sector in Q3 2014.

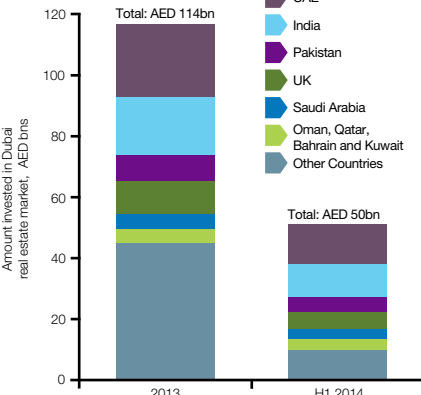
Survey participants also indicated that demand for loans from owner-occupiers and investors, as well as for refinancing or renovation purposes, rose between April and June 2014 – with the latter category seeing an especially healthy increase. Moreover, the net balance for expected change in demand for loans relating to housing was fairly positive, indicating that banks are optimistic about customers' appetite to borrow in Q3.

FIGURE 1
Annual residential price change in the mainstream and prime segments, Dubai (%)



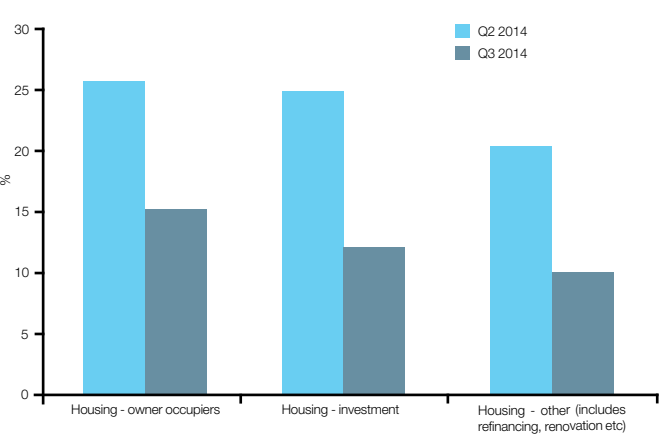
Source: REIDIN, Knight Frank

FIGURE 2
Dubai real estate investment by nationality



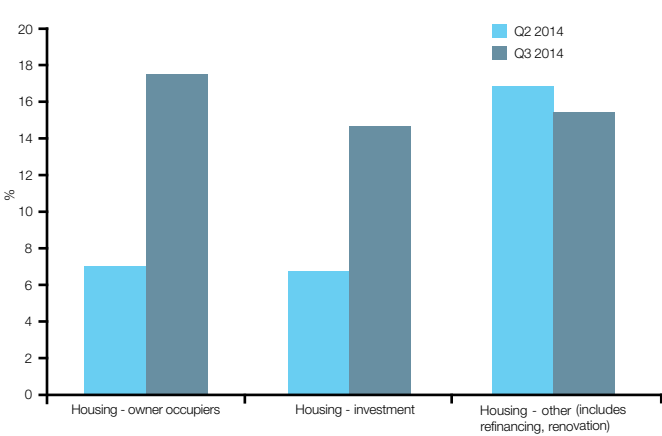
Source: Dubai Land Department, Knight Frank

FIGURE 3
Banks/financial institutions' willingness to extend credit to the residential sector, net balance



Source: Central Bank of the UAE

FIGURE 4
Expected change in demand for residential loans, net balance



Source: Central Bank of the UAE



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Knight Frank consider prime residential property to comprise apartments and villas valued at a current market rate of AED 10 million and over.

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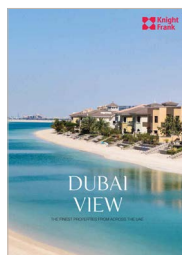
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