

UAE Real Estate Review - 2016Q3

Executive Summary:

Please find below a quick snapshot of the key topics covered in this note:

Pricing trends – Sales

In September 2016, monthly average listed property sales prices in Dubai declined to AED 1,150 /sqf (-1.92% y-o-y). Sales activity slowed down in the fourth quarter of last year. In 2015, average sales price dropped by -11.2%, and in 2016, a further 7% drop is expected.

In September 2016, Abu Dhabi, monthly average listed residential sales price remained the same at AED 1,340/sqf (-0.6% y-o-y). In 2015, annual average sales prices in Abu Dhabi decreased 3.6% y-o-y, and during 2016 on average a further drop by 2-3% is predicted.

Pricing trends - Rentals

In September 2016, monthly average listed property rents in Dubai declined by 2.9% y-o-y. In 2015, annual average declined by 2.4% by the end of 2015 and during 2016 a further 4% decline is expected.

For Abu Dhabi, in September 2016, monthly average residential rents declined by -4% y-o-y. In 2015, average annual rents remained stable, in 2016, annual average residential rents are expected to decline by 4-5%

Who's buying Dubai residential property?

During 2016H1, UAE nationals were the largest buyers, representing 25.5% of the total value of Dubai residential property transactions, while Indian nationals were the second largest investor group (accounting for 12.8% of the total), and British nationals third representing 7%.

Supply dynamics

According to the available data, by end of 2015, in Dubai there were around 455,000 residential units. Judging by the number of cranes in Dubai, the supply is unlikely to ease off anytime soon! By end of 2016, residential units are expected to reach up to 480,000. Clearly this will likely keep the pressure on prices.

Regulatory and other factors

The Dubai Government announced that they are considering clamping down on the flipping of off-plan properties and possibly introducing extra fees and implementing new restrictions on such activity, in an attempt to further curb speculators. Exact details weren't announced about the fee structure, but it could possibly be a new system that would charge flippers on a sliding scale, based on how long they had held the property. One possible method is to introduce some sort of stamp duty.

UAE Banking Sector -Factors relevant to real estate

Pre-Crisis in 2008Q3, so-called "hot money" was flowing into UAE banking system. There was excess liquidity, annual lending growth exceeded 40% during 2007-2008. Mortgage Loan to Value ratios exceeded 95%, off plan sales and financing was the common practice. Loan to Deposit ratios were above 110%, but are currently at around 104.4%.

Economic Outlook

Dubai economy experienced sustainable growth in recent years. In 2015 GDP of

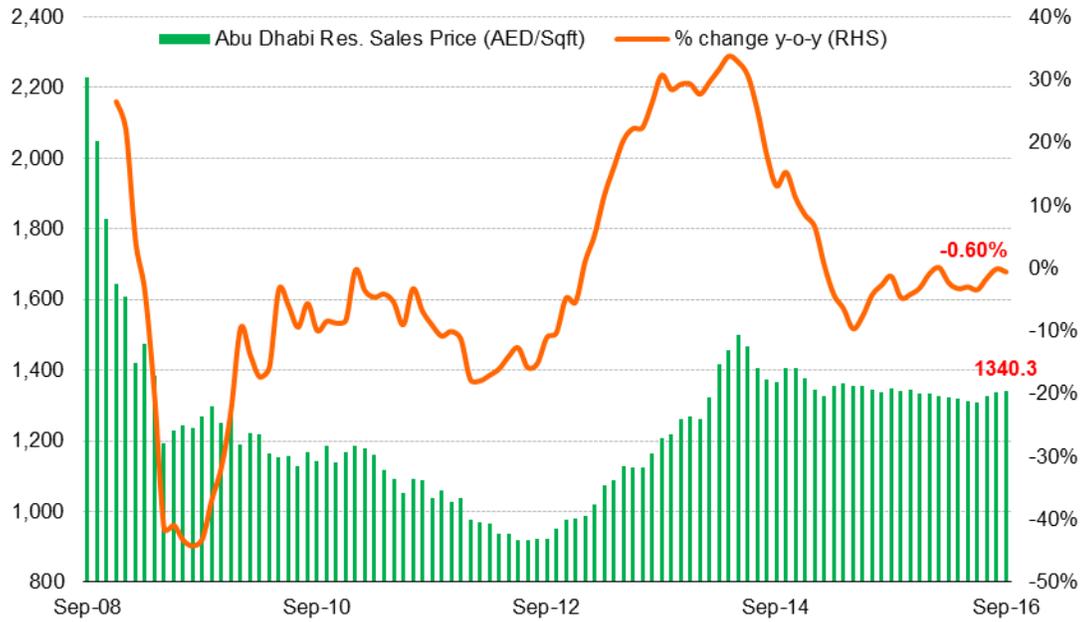
12 December 2016

Alp Eke
Senior Economist

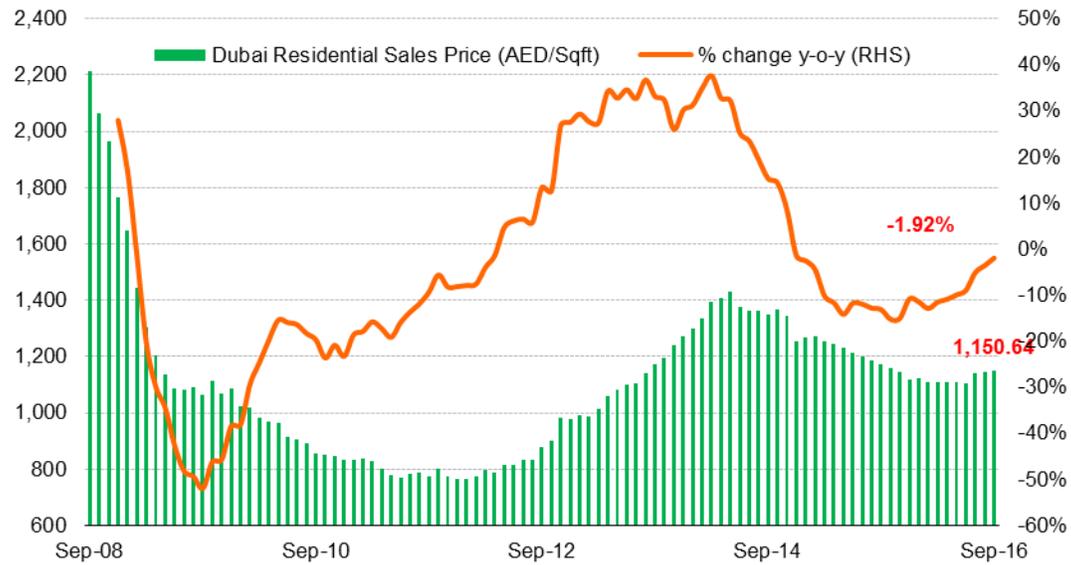
Rakesh Sahu
Analyst

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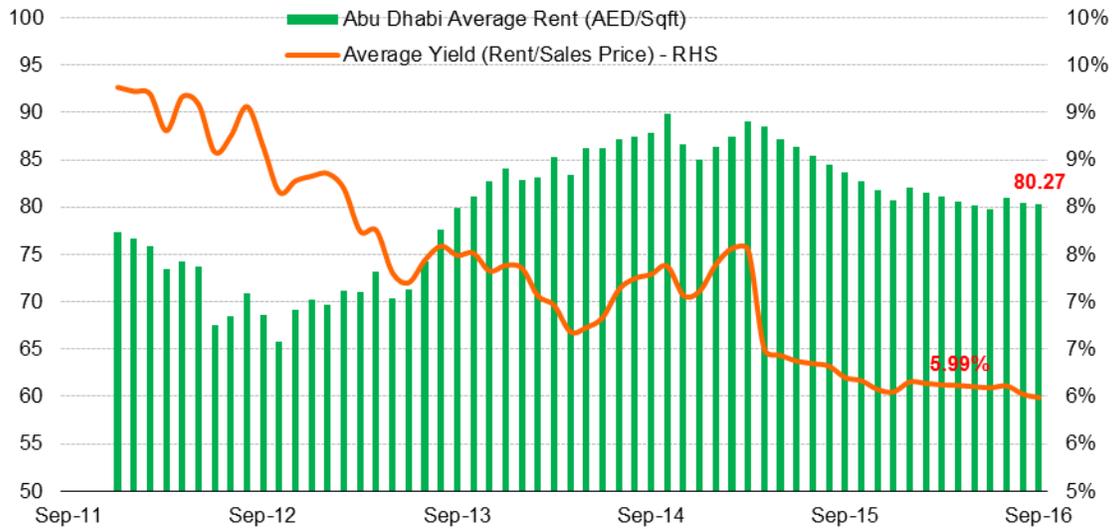
Dubai grew by 4.1% driven by real estate, trade, tourism and reached US\$ 105 billion (28.5% of UAE Nominal GDP). Highest since 2007. Business outlook remains positive. In 2016, GDP of Dubai is estimated to grow by around 3.5% again mainly driven by trade, real estate & tourism.



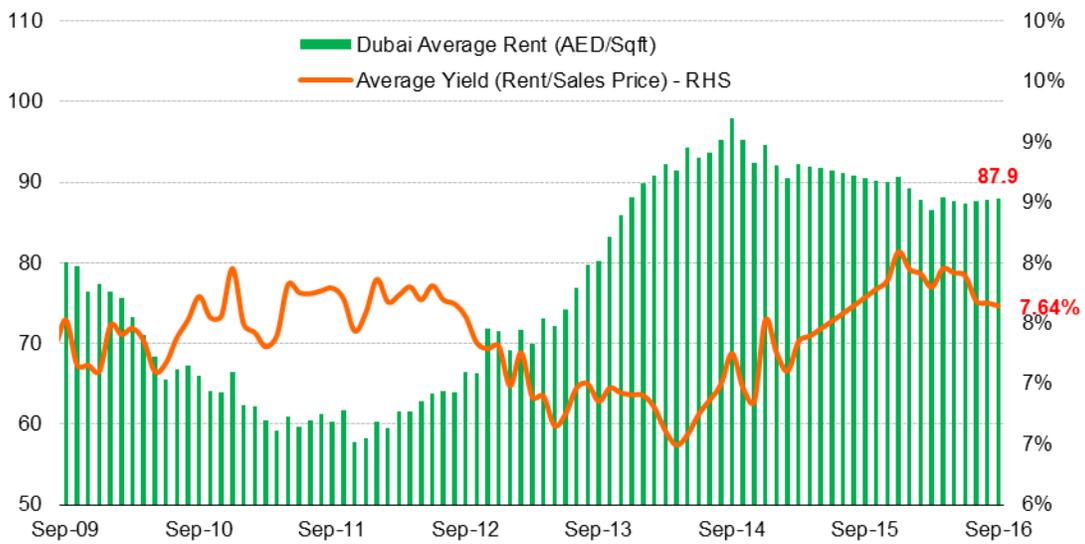
In month of September 2016, In Abu Dhabi, have listed residential sales price was ~AED 1,340/sqft (-0.6% y-o-y)



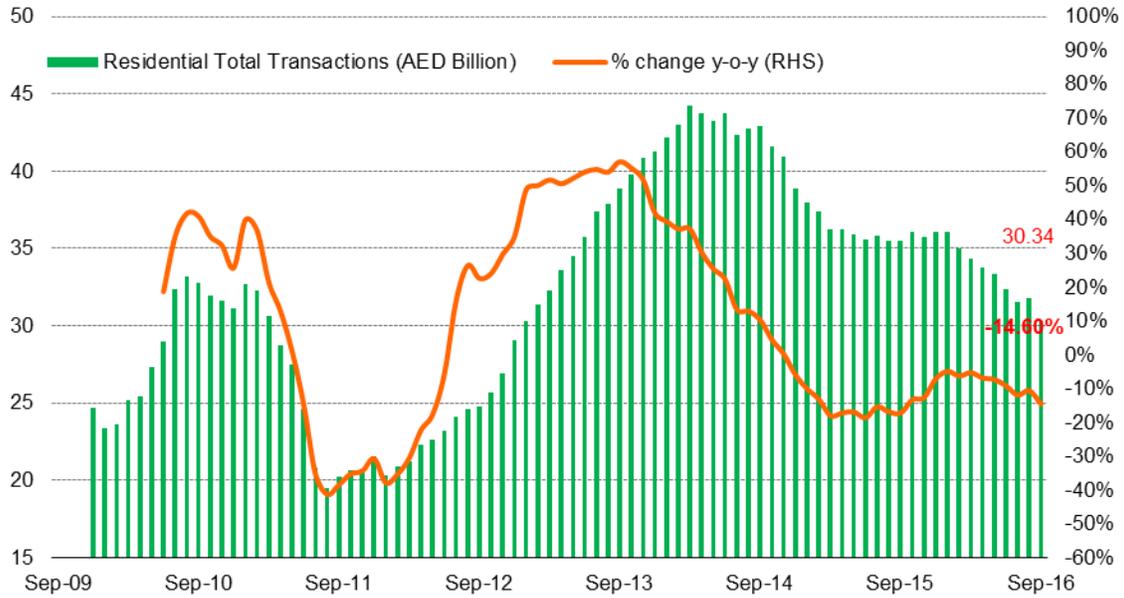
In September 2016, in Dubai average listed property sales price was AED 1,150/sqft (-1.9% y-o-y)



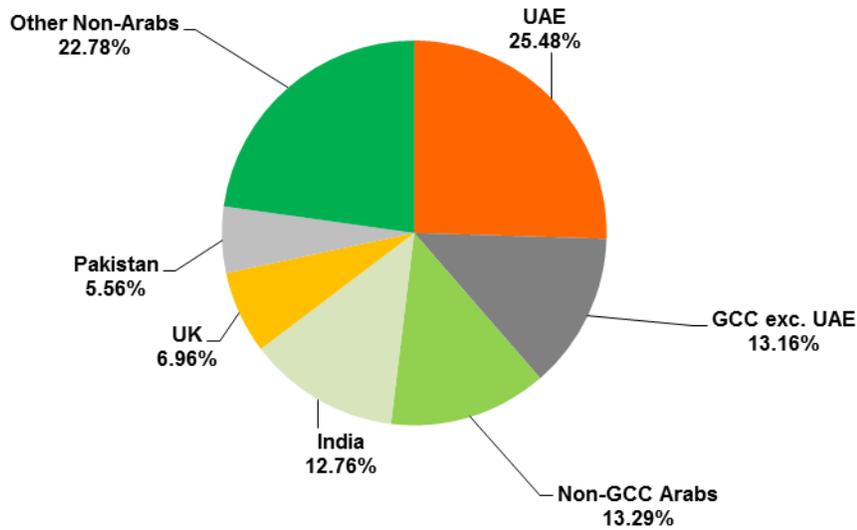
In month of September 2016, In Abu Dhabi, ave listed rental value ~ was AED 80.27/sqft (-4%y-o-y), average yield declined to 6%.



In month September 2016, In Dubai ave listed rental value ~ was AED 87.9/sqft (-4.4%y-o-y), average yield is around 7.65%

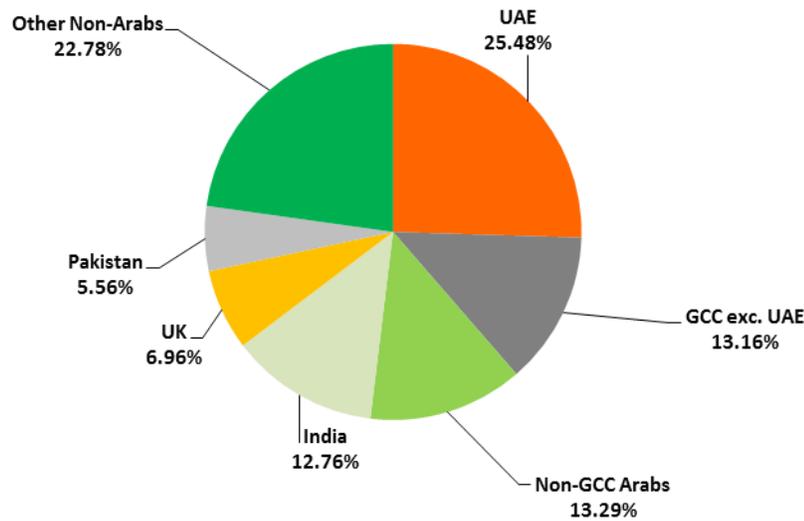


In September 2016, residential property transactions, on a 12mth cumulative basis, declined to AED30.35 billion (-14.6%y-o-y). Mortgage transactions currently constitute 40% of total, up from 20% in July 2009.



According to (DLD) in 2016Q2, UAE nationals took the lead with investments worth 25.5%. Indians were second with investments worth 12.8%. British nationals came third with investments worth 7%. GCC nationals constituted almost 40% of the total investment value. Overall Arab nationals constituted 53% of total investment value.

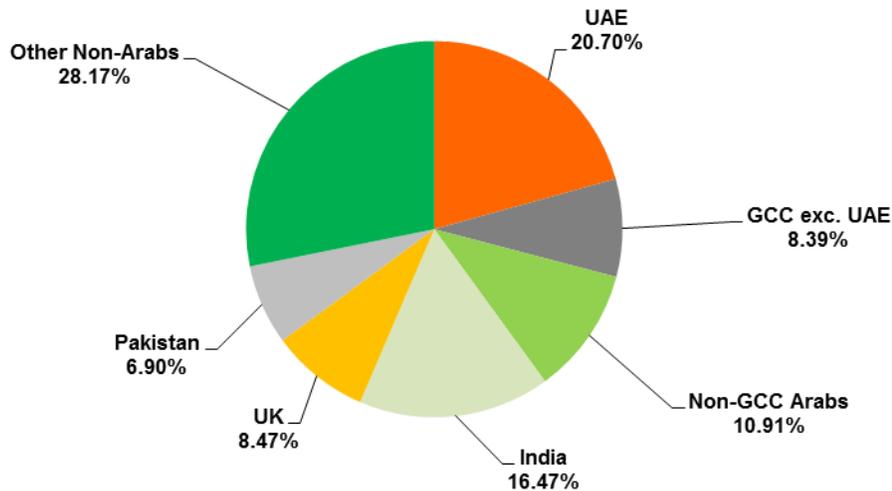
Investment Value By Nationality (AED) 2016Q3



Source: Dubai Land Department, RERA

According to Dubai Land Department (DLD) in 2016Q3, UAE nationals took the lead with investments worth 25.5% of the total sup from 20.7% in 2014, Indians were second with investments worth 12.8% down from 16.5% in 2014. British nationals came third with investments worth 7%. GCC nationals constituted almost 40% of the total investment value up from 29% in 2014. Overall Arab nationals constituted 53% of total investment value - up from 40% in 2014. This is a serious jump from previous year and demonstrates that GCC nationals are focused more on Dubai.

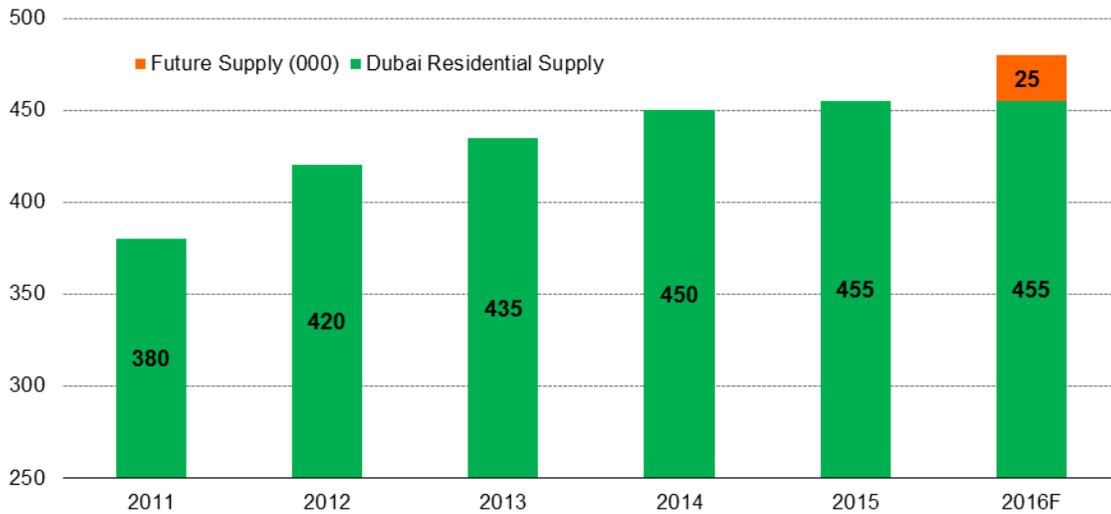
Investment Value By Nationality (AED) 2014



Source: Dubai Land Department, RERA

One of the possible reasons for this is the ongoing turmoil and geopolitical unrest in the broader Arab world which is driving many people to have primary or secondary homes in Dubai, especially as it is widely regarded as a much more safe and stable place to live, relative to many other cities in the region.

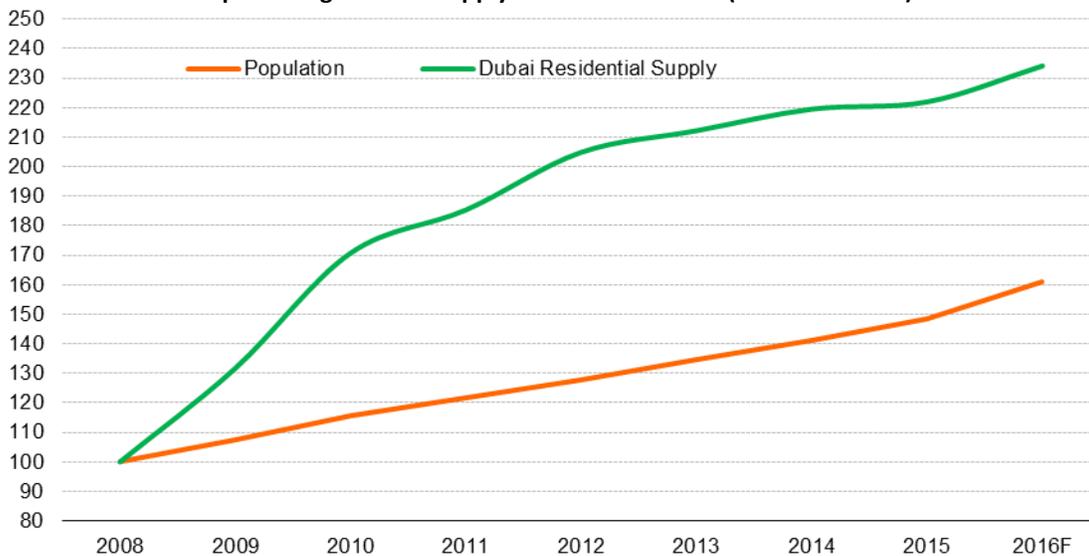
Dubai Residential Units Available & Future Supply



Source: Jones Lang Lasalle

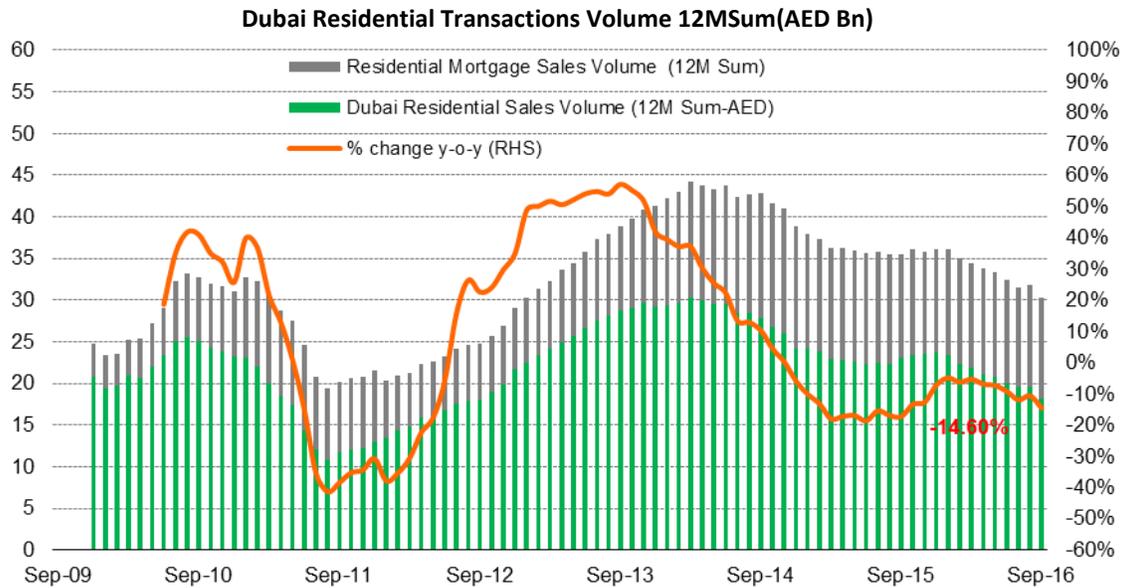
In June 2014, Dubai's Land Department announced that "Growth in real estate demand has been due to an improving economy, not speculation". The announcement came soon after the IMF and Central Bank UAE warned that the property market might be overheating. According to JLL by the end of 2016 the total count is expected to surpass 480,000 units. With the pace of additional supply seemingly relentless, there are clearly concerns about imbalance in the supply-demand dynamics of this market.

Population growth vs Supply of residential units (Rebased to 100)



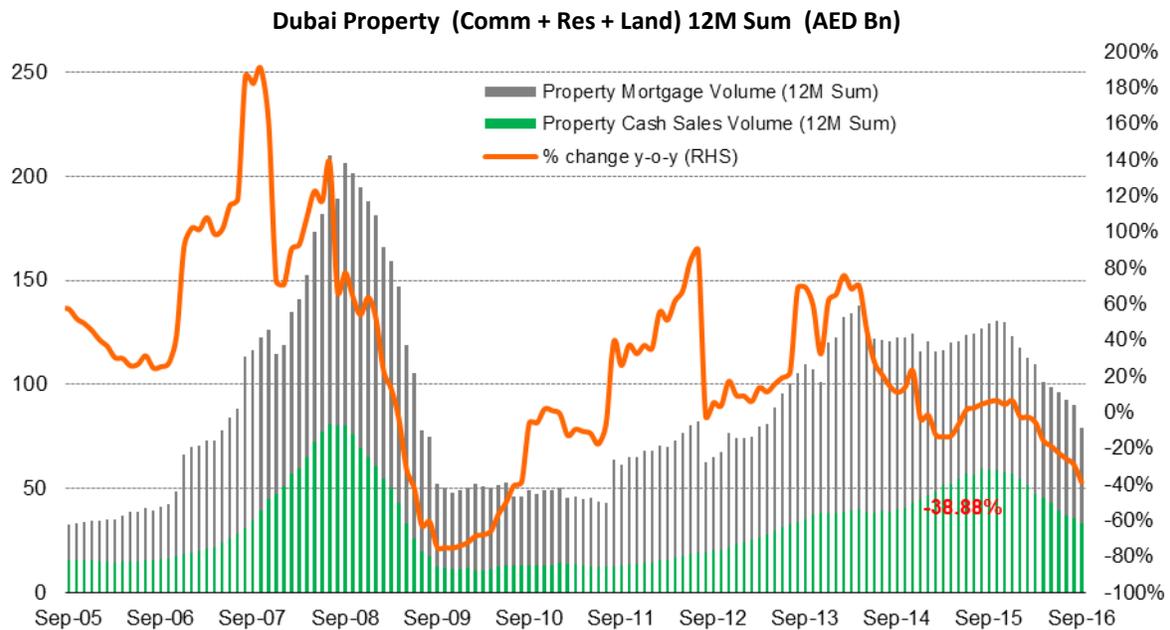
Source: Dubai Land Department, RERA, Dubai Statistical Center

As we can see the supply of residential units more than doubled since 2008 (130% since 08), while population increased by a more modest 60%, equivalent to circa 1 million people. The gap between the two lines indicates that the supply is growing faster than the population - however it is important to bear in mind that people residing outside of Dubai are also investing in such residential units, and hence this could to some extent mitigate an element of any potential over-supply.



Source : Knight Frank

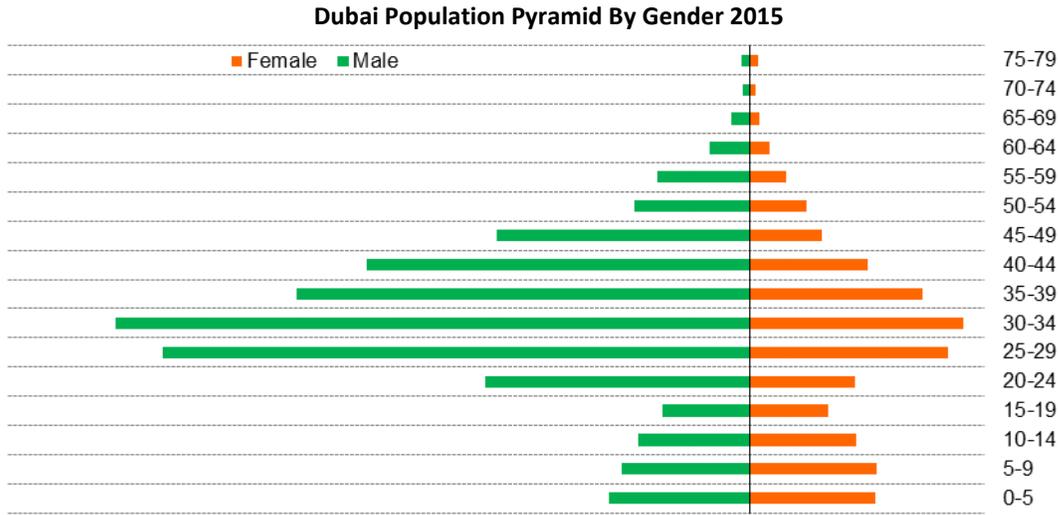
In September 2016, residential property transactions, on a 12mth cumulative basis, declined to AED30.34 billion (-14.6%y-o-y). Mortgage transactions currently constitute 40% of total, up from 20% in July 2009. This clearly indicates that investors have access to loans, market sentiment is improving, and banks are indeed lending. However, it is still noteworthy that despite this change, abt 60% of all residential transactions are still on a cash basis.



Source: Dubai Land Department

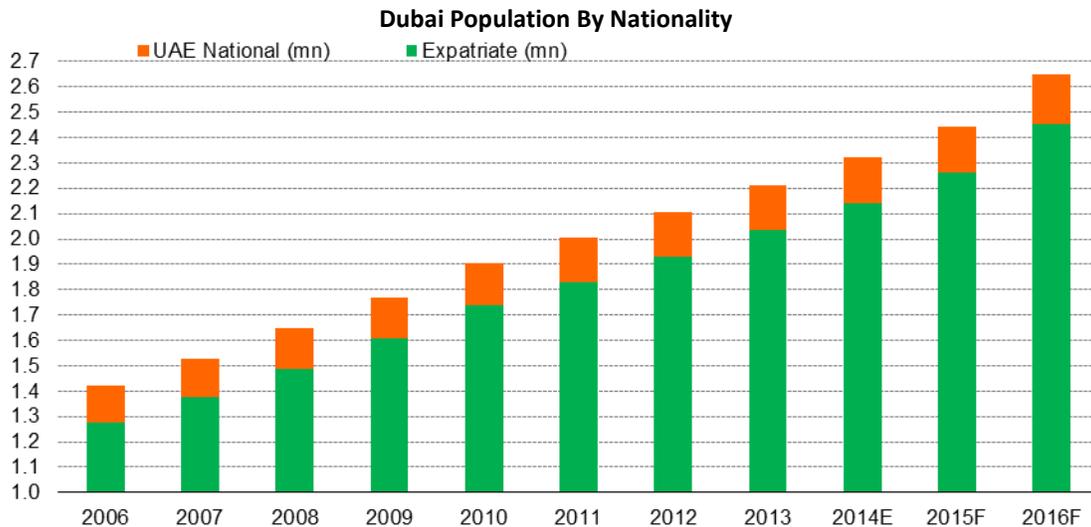
Property sales volumes had been increasing from 2011 to Q1 2014, when they peaked and sales activity showed signs of slowing down in last quarter of 2014. Most recent monthly data from May 2016 indicates that sales volume has declined by 18.55% annually. The Dubai Real Estate Investor Law (Tanweer) aims to minimize legal disputes and protect investors' rights. DLD also increased the transaction tax on real estate from 2% to 4% and this shows the government's intention to reduce the amount of speculative activity. The

market still has some degree of speculation in it, but the Real Estate Regulatory Authority and the UAE Central Bank have been implementing counter measures which have led to the regulatory environment being much better than the 2008 period. The new regulations require that developers deposit between 30% and 40% of the total construction costs in escrow account before any pre-sales. In addition, developers are required to have 100% ownership of their land. These measures are designed to protect the investors and generate greater confidence and comfort among those looking to invest in this market. Additional details of the regulations imposed are shown at the back of this report.



Source: Dubai Statistical Center (DSC)

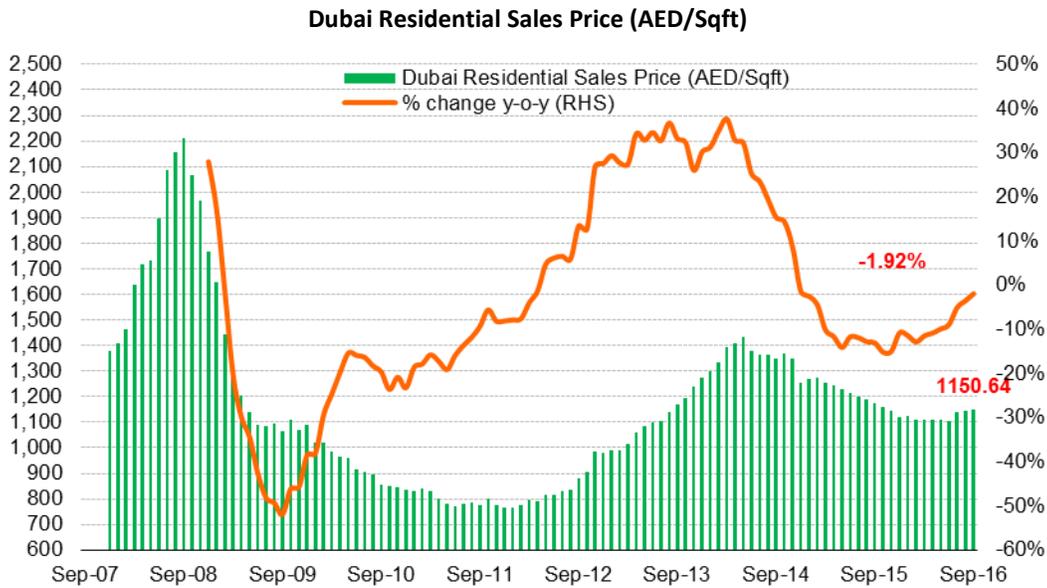
According to Dubai Statistical Centre, in 2015 the emirate’s population is estimated to have reached 2.45mn, and is expected to continue growing pass 2.6 million by the end of 2016. Emirate of Dubai has a very young and dynamic population: 95% of the population is under 60 years of age, almost 91% of the population is under 50 years of age, and 73.4% are below 45 years of age.



Source: Dubai Statistical Center (DSC), National Bureau of Statistics (NBS)

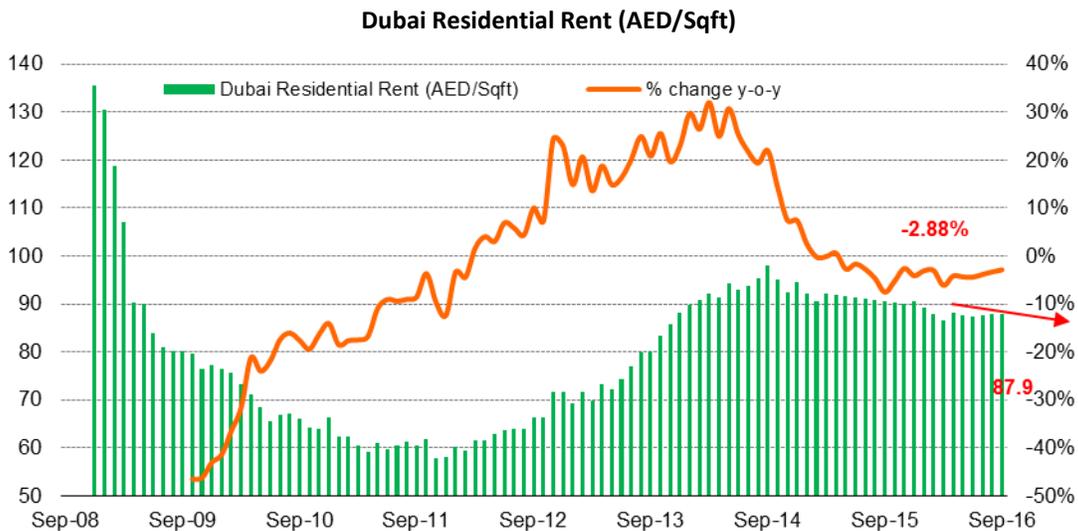
According to the National Bureau of Statistics, in 2010 Dubai’s population was 1.9 million and UAE nationals constituted approximately 9% (170,000) of this number. By the end of 2016, population is estimated to pass,

2.6million with UAE nationals estimated to represent approximately 7.5% of the total. By 2020 population is expected to pass 3 million and if the current trends continue, UAE nationals will constitute only around 5-6% of the population at that time



Source: NBAD Real Estate Database

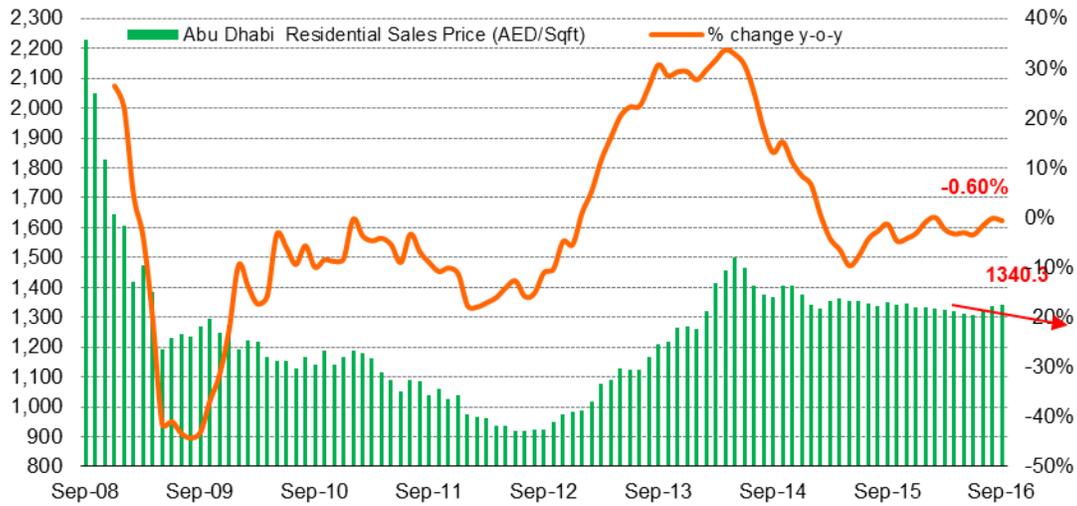
In September 2016, average listed property sales prices in Dubai declined to AED 1,150/sqft (-1.9% y-o-y). Sales activity slowed down during 2016. In 2014, annual average sales prices increased 21% y-o-y, In 2015, annual average sales price dropped by -11.2%, and in 2016, a further 7% drop is expected



Source: NBAD Real Estate Database

In September 2016, Average yield reached to 7.54%. In September 2016, monthly average listed property rents in Dubai declined by 2.9% y-o-y. Average rents increased by 21% during 2014, In 2015, annual average declined by 2.4%. By the end of 2016 average rental price is expected to decline further 4%. The increased demand from Dubai's successful bid to host the World Expo 2020 is expected to keep up demand.

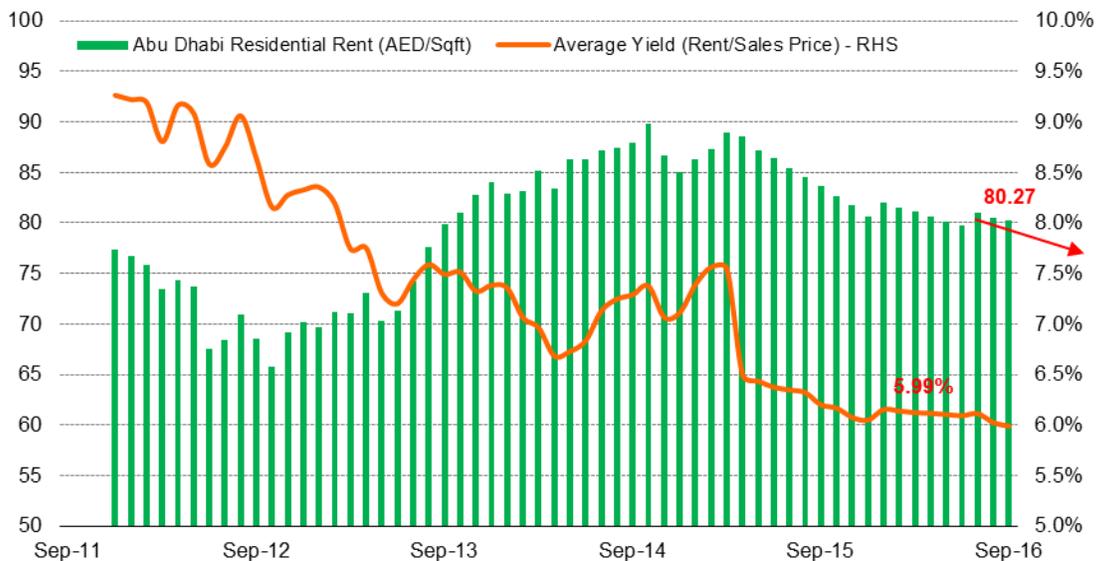
Abu Dhabi Residential Sales Price (AED/Sqft)



Source: NBAD Real Estate Database

The positive sentiment in Abu Dhabi since the beginning of the year was driving sales prices up up until 2014Q3. In September 2016, Abu Dhabi, monthly average listed residential sales price remained the same at AED 1,340/sqft (-0.6% y-o-y). In 2015, annual average sales prices in Abu Dhabi decreased 3.6% y-o-y, and during 2016 on average a further drop by 2-3% is predicted.

Abu Dhabi Residential Rent (AED/Sqft) vs Yield



Source: NBAD Real Estate Database

For Abu Dhabi, in September 2016, monthly average residential rents declined by -4% y-o-y. Removal of the rental cap of 5% contributed to rental growth especially in newer developments. Significant amount of AD residential market was controlled by the rental cap. Tenants started moving to high end areas with better parking and facilities. At the low-end market; rents for units on the Abu Dhabi Main Island, reached the lowest point in July 2013, after a long period of decline. In 2014, average annual rents increased by 13.8%, In 2015, average annual rents remained stable, in 2016, annual average residential rents are expected to decline by 4-5%. Current yield as of September 2016, is 6%.

Time Line of Dubai Real Estate Regulation	
2002	Property market opens up for foreigners
2006	1. Law 7: Real Property Registration. Allows foreigners to own real estate in designated areas
2007	1. Real Estate Regulatory Authority (RERA) formed. RERA becomes the regulatory institution for real estate market. 2. Law 8: Escrow Law. This law ensures off plan sales revenue to be used only for the project it is collected
2008	1. Law 13: Interim Real Estate Registry. Developers can't sell units off plan unless they take possession of land. All real estate units to be recorded in interim Real Estate Register. In case of default by the investor, developer must refund money after a deduction not exceeding 30% of money paid by the investor. 2. Law 14: Mortgage Registration. Protects banks and financial institutions by registering mortgages on real estate and enforcement of rights in case of default
2009	1. Amendments to Law 13 of 2008: Developer can keep full amount paid and claim remaining purchasing price if at least 80% of the project is completed. Developer can revoke the contract and keep up to 40% of the purchase price if at least 60% of the project is completed. Developer can revoke the contract and keep up to 25% of the purchase price if construction started but didn't reach 60%. Developer can revoke the contract and keep up to 30% of amount paid if construction has not started for reasons beyond control.
2010	1. Law 27: Jointly owned properties (Strata Law). Strata law benefits buyers bringing transparency and fairness on issues such as service charges, contracts with service providers and the use of common areas and facilities. 2. Decree 4: Ownership of Land granted for industrial and commercial purposes. The decree allows holders of commercial granted lands to convert them into freehold payment of fees and market prices enabling them to use land to raise capital or sell it in open market.
2013	1. Investor Protection Law (TANWEER): Not yet released. Allows investors to get full refund in case of developer failure to deliver/complete property in specified time frame or alters specifications of flats without permission. Allows for compensation for breach of any warranty in contract or misrepresentation by the developer or broker. 2. In July 2013, Government of Dubai announced establishment of a special legal committee to settle the disputes between the property developers and investors over the cancellation of projects. The decisions of this legal committee can not be challenged by any Dubai Court 3. In October 2013, Central Bank issued new rules governing bank lending. The new rules will limit home loans for expatriates to 75% of property's value for investments less than AED5million and 80% for UAE nationals. For second property expatriates will be allowed 60% of property value and 65% for UAE nationals. Loans will be limited to maximum of 25 years. Maximum age for last repayment is 65 years for expatriates and 70 for UAE nationals. 4. In October 2013, Dubai Land Department as real estate regulatory authority in order to prevent excessive amount of speculation it would double the transfer fee on each sale to 4% of property's value.
RERA Regulations That Protect Investor Interest	
All projects have to registered with RERA. Only RERA registered developer can launch a project.	
A developer can offer units off plan when 20% of construction has been done or the developer has deposited 20% of project value with RERA in an ESCROW account	

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