

REAL ESTATE IN DUBAI

SAMPLE

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SAMPLE

Introduction

Dubai is the financial centre of the “United Arab Emirates” (UAE), and its rapid development has been linked to Dubai's "oil revenue" which accelerated Dubai's development into a modern metropolis. However, after the government of the “United Arab Emirates” made a decision to diversify its economy and include sectors like service and tourism, there was a major construction boom in Dubai in the early 2000s that led to the birth of the “real estate sector of Dubai”. The “real estate sector of Dubai” was primarily driven by mega projects like the "Palm Jumeirah Island" and the "Burj-al-Arab" and recently plans are under development for the construction of a "Business Bay", an agglomeration of 500 high rise buildings that will serve as offices for a variety of Multinational companies. Dubai has always been an important region with respect to trade because of its location in the Persian Gulf. However, Dubai's construction boom that started in the early 2000s came to an abrupt end in 2008 with the global financial recession. It led to a lot of apartments and high rise building being abandoned in the middle of the construction, and several contractors fell into debt. By 2012, after the market picked up, there was a surge in buying of a property with many investments coming from countries where the recession hit hard and an increase in usage of cash transactions as opposed to loans for buying (Al-Mohana & Hatemi, 2016).

Demand and Supply

The inception of “Dubai’s real estate sector” can be traced back to the early 2000s when the government of the “United Arab Emirates” invested money in mega projects that ultimately led to its formation. The “real estate sector” contributes a major chunk of the country’s “Gross Domestic Product” which was previously being dominated by the country’s oil and petroleum industries (Elessawy, 2017). The move started with the vision of creating Dubai an international city for tourism and sightseeing, but it is soon going to be a far wider playfield with business parks and housing projects to come in the future. The demand for real estate is dependent on three factors:

- “Population”
- “Income”
- "Availability of financing."

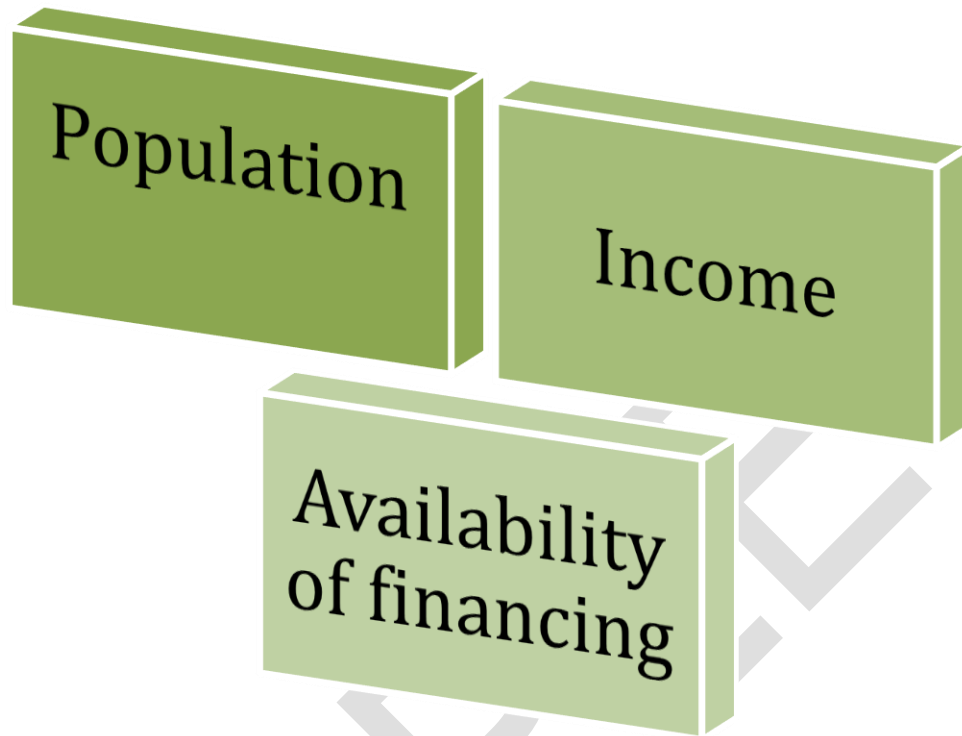


Figure 1: Factors affecting real estate demand

(Source: Self created)

Population influences demand real estate not only because of its number but also demographics like age distribution, size of household and educational status. Also, population migration is an important demographic that must be studied in order to ascertain demand for real estate (Hafeez *et al*, 2016).

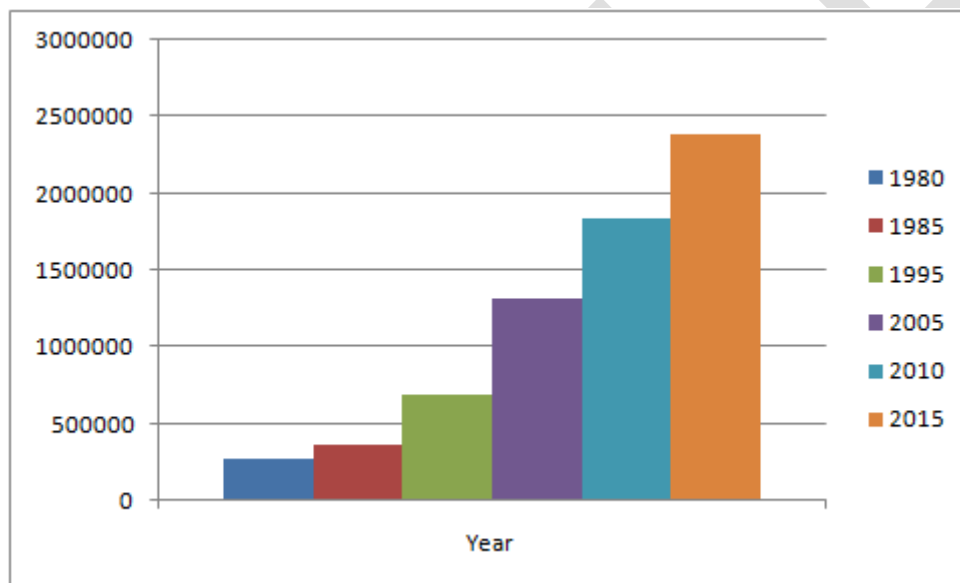
The important cause of population change is employment opportunities.

Demand for real estate is directly linked to income. A growth in income will lead to a rise in demand, whereas a fall in income can cause a drop in “real estate demand”. Need for real estate arises from business growth as well as growth in household income. Another factor that influences demand in real estate is the cost of financing options. Real estates are costly assets and frequently require large financing aids; therefore “real estate” buying is greatly helped by easily available and cheap financing options. A lack of cheap and reliable financing options will certainly lead to a decrease in “real estate demand” (Sayah & Ranadive, 2017).

“Dubai population growth” (1980-2015)	
<i>Year</i>	<i>Population</i>

1980	276300
1985	370790
1995	689500
2005	1321500
2010	1837500
2015	2383000

Table 1: Population growth in Dubai
(Source: Self created)



Graph 1: Population growth in Dubai
(Source: Self created)

The major factors that influence real estate supply are:

- "Cost of production inputs."
- "Cost of financing."
- "Technological know-how."
- "Expectations"

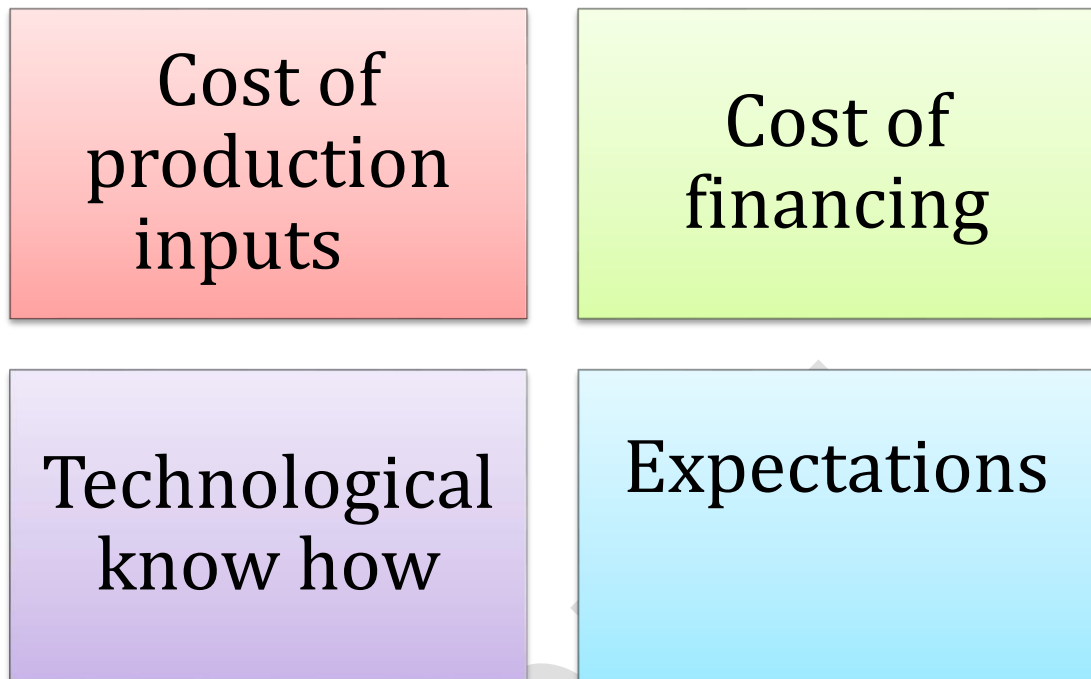


Figure 2: Factors affecting real estate supply

(Source: Self created)

The increases in the cost of production inputs like materials, land and labour can reduce the availability of real estate. Technological advances also affect the cost of production and this relationship is usually inversely related as an increase in one leads to a decrease of the other. If advancement decreases cost, then, there will be an increase in the quantity supplied.

The expectation of developers is the most important factor determining supply. If high demand is expected in the future, then an increase in real estate quantity can be expected (El Amrousi, 2019).

The Dubai population has grown with an “annual growth rate” of 6.9% since the 1970s based on actual population census data. The “Gross Domestic Product” of Dubai has also grown and so is the “per capita income” of people living in Dubai which is currently around 4%. The demand for real estate is further increased by a wide range of financing options that are available for purchasing real estate in Dubai. The primary providers of real estate in Dubai are the public sector, that is, the government. Under the public sector, there are three types of buildings. With time, the public sector has transferred a part of its responsibility as a provider of real estate to the private sector as well. Therefore we see how demand and supply have both grown keeping pace

with each other as far as the real estate sector in Dubai is concerned (Bhavani & Kukunuru, 2016).

Performance analysis

In the past, the public sector has provided the bulk of the real estate projects that have been commissioned in Dubai. Those times have been the golden age in the “real estate and housing sector”. By analyzing the performance of the “real estate market in Dubai”, it is possible to predict the rise and fall of this industrial sector and the effect it has on the overall economy of the country. Many of those projects were like dreams for a lot of people who never believed they would see those projects completed. In 2008, the “real estate market” took a big hit due to the global economic recession. A lot of housing projects were left stopped mid-way through construction or completely abandoned. This adversely affected the economy of the country, and hence the real estate market also suffered a major setback. As the market conditions stabilized in 2012, the “real estate sector in Dubai” shot up and this time in an unprecedented manner. Property prices skyrocketed, and the market grew by 34% in one year alone, which forced the government to go into a correctional mode increasing registration fees and setting a cap on mortgage LTVs. The next year, again, the market grew by 14% in the next year in 2014. There was a great increase in demand after the recession and a lot of people tried to forget the past and look toward the future. There was a spurt in growth in the real estate sector as new properties began to emerge and construction boomed. After 2014, the prices in the real estate sector began to fall again; this time, the oil prices had also fallen the dollar was weaker. Again the government set correctional measures, which forced prices to drop by 10% and 6% in 2015 and 2016; ultimately stabilizing in 2017. However, the market has not shown any recovery since then (Al-Abduljader, 2019). This means Dubai's real estate sector still sees a 29.3% drop in “residential real estate” values since the mid-2014s, which led to an increase in buying of apartments priced below AED 1 million and villas which are priced between AED 1 and 3 million. This scenario of the “real estate market in Dubai” has perplexed many experts and buyers, who have been losing faith. However, recently there has been a formation of a committee led by "Sheikh Maktoum Bin Rashid Al Maktoum" to save the real estate market in Dubai and plan

for the coming decade by finding a “balance between supply and demand”. Dubai's unique position in the world economy is because of its tax-free, tolerant and demand-led growth and in the future, it will most likely create a balanced market. There have been numerous off-plan projects having attractive payment plans for investors running for a number of year’s post-handover. It was also believed that the price decline has been good because before prices had been inflated. With new supplies coming in, the prices are expected to drop further at least until 2022. This will, however, benefit customers who had earlier aspired to buy a property but could not due to high prices (Wiedmann, 2019).



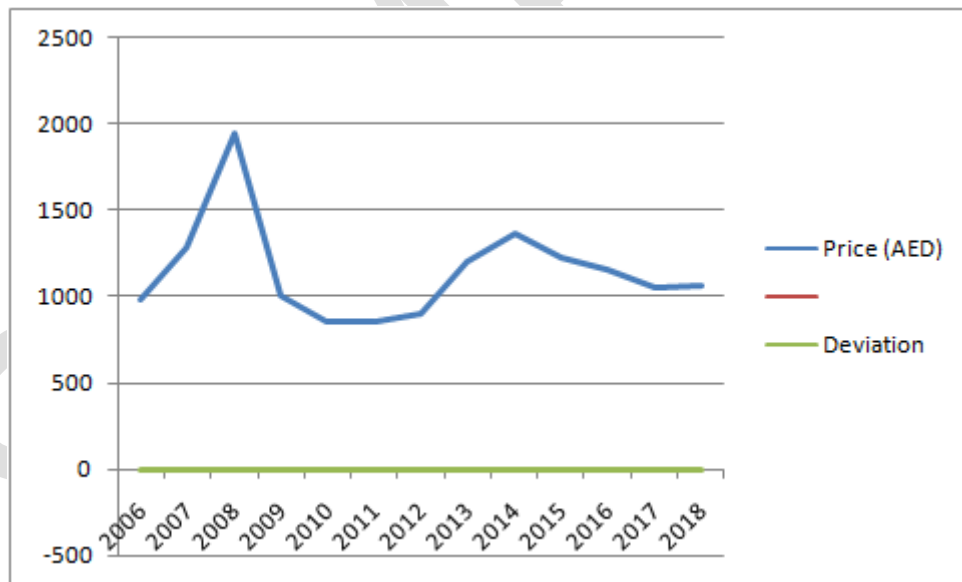
Figure 3: New real estate boom in Dubai

(Source: google.com)

“Average Dubai real estate prices” (2006-2018)		
<i>Year</i>	<i>Price (AED)</i>	<i>Deviation (from the median value of AED 1250)</i>
2006	980	-20%
2007	1280	+30%

2008	1950	+50%
2009	1000	-49%
2010	850	-15%
2011	855	+1%
2012	900	+5%
2013	1200	+34%
2014	1370	+14%
2015	1230	-10%
2016	1160	+6%
2017	1050	-1%
2018	1055	-8%

Table 2: Real estate prices in Dubai
(Source: Self created)



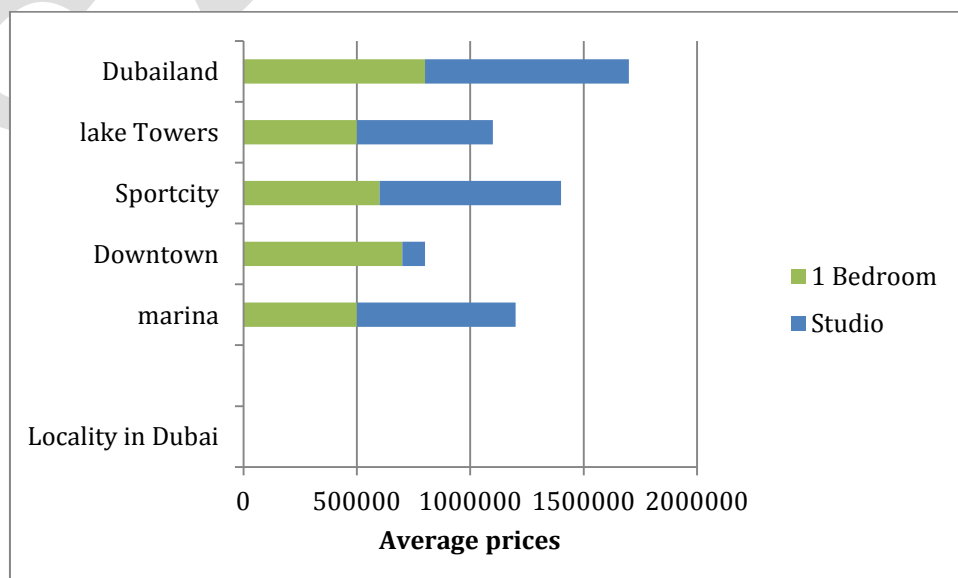
Graph 2: Real estate prices in Dubai
(Source: Self created)

Elasticity and trends

Many people believe that there should be a control on supply in the “real estate market in Dubai”. The prices in the Dubai realty market resemble those of 2009-10 levels,

which provide an opportunity for investors to enter the market. Currently, the market resembles an “oversupplied” state, which means, the quantity of property available outnumbered the demand requirement. From the fundamental concepts of economics, greater supply than demand can push down prices, and this is what is happening to the Dubai real estate market now. Elasticity in the housing sector gives us an idea of how many new properties will be created, as a result of an increase in demand. The elasticity of housing supply provides us with an easy way to understand the supply and demand dynamics of the housing sector. With an elasticity of less than 1, it means that supply is not responsive to demand; that is if demand (or prices) increase by 10% then the supply increases by less than 10%. The market is then said to be “inelastic”. The elasticity of the supply side can be measured by observing market trends in the past (chicagounbound.uchicago.edu, 2016).

The Dubai housing sector has shown a high level of activity towards the end of 2018. But, understanding the trends of demand in the housing market is a complex problem. Dubai’s demographics data shows that 9 out of 10 people residing in Dubai were born in a different country. Data also reveals that 46.9% of the total workforce earning a living in Dubai earn below AED 2500 in one month. These people usually end up living in staff quarters. Another, 18.2% of the workforce have monthly earnings of between AED 2500 and 5000. Most of these people share rooms or live in a small apartment. The remaining 35% whose monthly earnings of AED 5000 and 35000, can afford to rent or purchase a private home (scholarworks.waldenu.edu, 2019).



Graph 3: Average prices of housing in Dubai

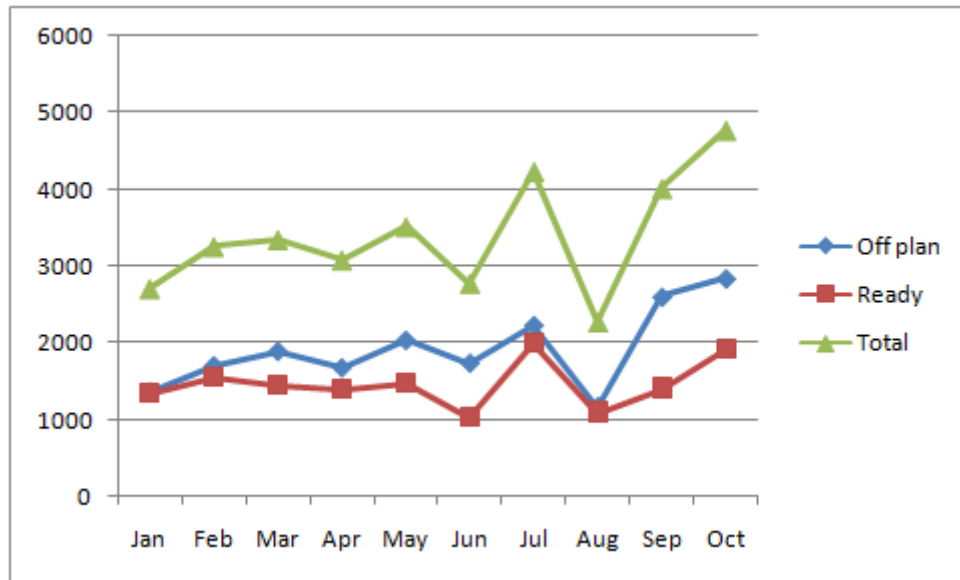
(Source: Self created)

The Dubai population has been growing at a rate of over 7% per annum on average. The “population of Dubai” has increased by more than 1 million after 2013. In 2017, there were around 550,000 residential units in total excluding villas, collective households and accommodation rooms and others. For 2018, the forecast was made for 46000 new property units to be completed. However, only 46% of the projects were completed, and only 21,500 new property units were available. The reality is that there are several project delays from last three years, and the next year is said to be adding less than 70000 properties to the housing market. However, this particular data is as declared by contractors and property developers. Assuming that 35% of these construction projects to complete without any delays, then we get a number of 24000 new homes for sale in Dubai’s housing market (arabianbusiness.com, 2019).

Dubai property sales (2019)			
<i>Month</i>	<i>Transaction volume</i>		<i>Total volume</i>
	<i>Off-plan</i>	<i>Ready</i>	
Jan	1360	1340	2700
Feb	1700	1550	3250
Mar	1890	1450	3340
Apr	1675	1400	3075
May	2035	1475	3510
Jun	1735	1035	2770
Jul	2230	2000	4230
Aug	1165	1100	2265
Sep	2600	1410	4010

Oct	2840	1930	4770
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Table 3: Property sales in Dubai housing sector
(Source: Self created)



Graph 4: Property sales in Dubai housing sector
(Source: Self created)

Conclusion

Dubai is known for rich people who live there. However, Dubai also has a large fraction of its workforce in the lower and median income categories. Many of the new housing projects are coming up target middle-income houses. There are not enough affordable houses in Dubai. Developers have taken note of this gap between demand and supply. There is a need for more new properties in the affordable housing segment. With the addition of more supply prices of the properties will have the tendency of going down. This is a positive situation, from the perspective of the buyer, as the decrease in prices will mean more supply in the affordable segment, with the buyers having the advantage. The market is expected to adjust and rebalance itself; prices are expected to increase again, leading up to Expo in 2020. The initiative lies on the government to focus on some of the social needs and implement economics that will drive supply (gulfnews.com, 2019).

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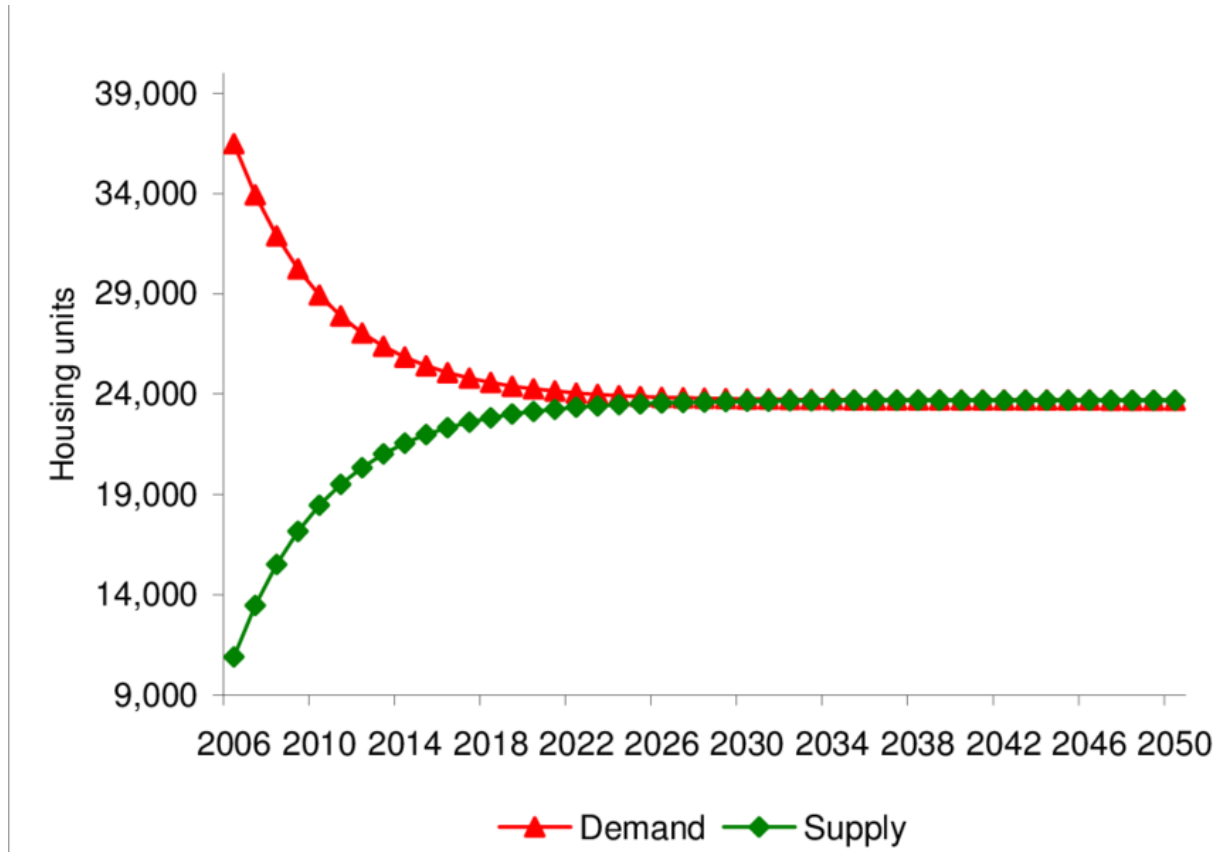
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Appendices

Appendix 1: Dubai real estate future trend



(Source: https://www.researchgate.net/figure/1-Supply-and-demand-in-Dubai-real-estate-market_fig1_242417789)

Appendix 2: Dubai house price changes

House Price Change, Annual (%)

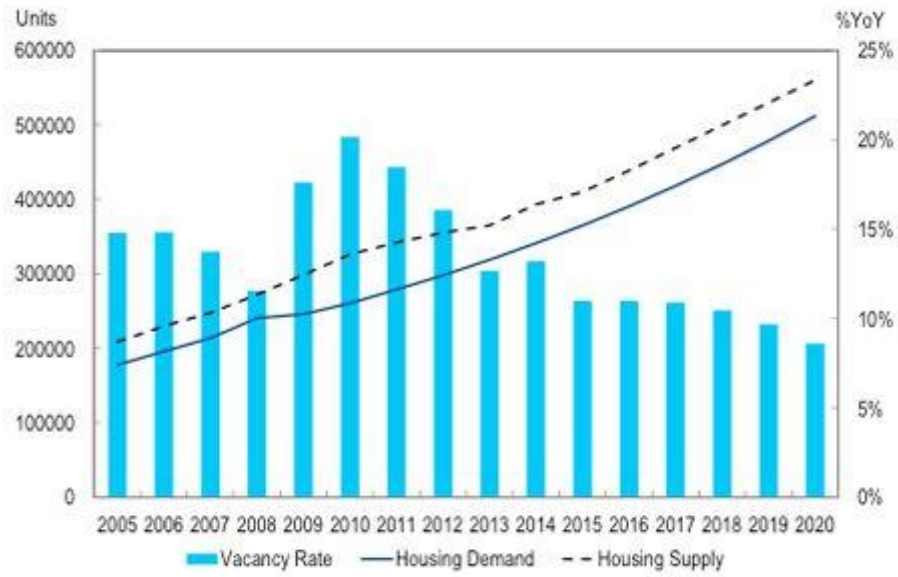


Source: Blagovest

(Source: <https://www.globalpropertyguide.com/Middle-East/United-Arab-Emirates/Price-History-Archive/UAEs-housing-market-crash-112>)

Appendix 3: Dubai housing market oversupply

Figure 12. Residential oversupply issues have receded somewhat...

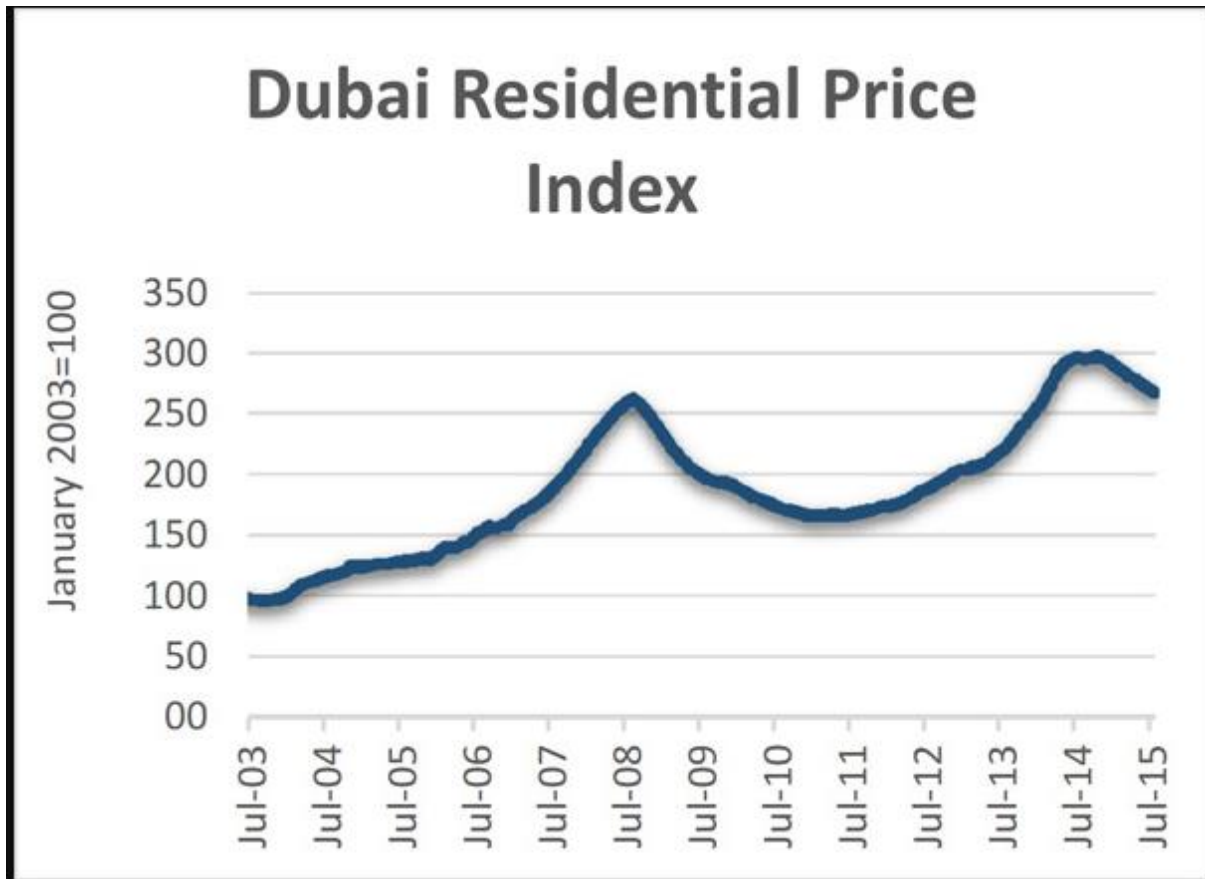


Source: Dubai Statistics, Jones Lang Lasalle, Citi Research

(Source: <https://www.pinterest.ch/pin/150166968803273676>)

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Appendix 4: Dubai residential price index



(Source: <http://www.propertywatch.ae/wp-content/uploads/2015/09/dubai-residential-price-index-q3-2015-reidin.jpg>)