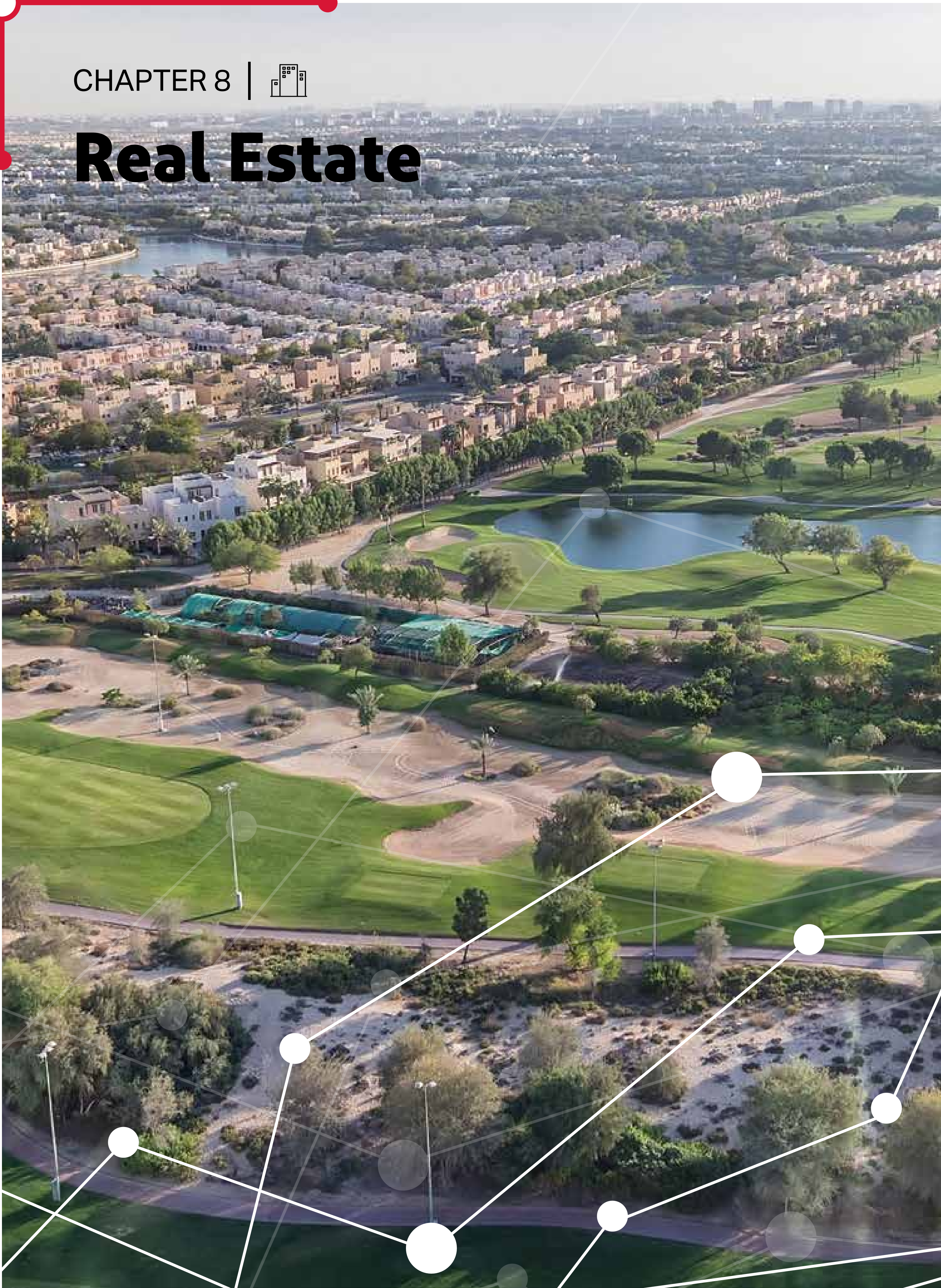
CHAPTER 8

Real Estate



Real Estate Incentives Attract Investment

Real Estate activities in Dubai generated value added of AED 28.7 billion (US$7.8 billion) in 2018, increasing by 7.0%, over three and half time the growth rate of real GDP.

Investors are attracted by the following incentives:

- 100 per cent business ownership for foreigners
- 10-year visas for highly qualified individuals, investors, entrepreneurs and executives
- 5-year retiree visa targeting those aged over 55 years old
- Increased spending on landmark projects

1

International Investors

Attractive ownership incentives, beneficial visa options, increased spending on landmark projects, have drawn investors from around the world.

FDI
Foreign Inward
Real Estate Investment

Almost 3X

in 2018 compared to 2017

2

Upswing in Investments

FDI foreign inward real estate investment, especially in residential buildings, almost tripled in 2018 compared to 2017.

3

Dubai Industrial Strategy 2030

New regulations for incubators and business accelerators will stimulate business formation and the demand for office space.

Overview

Real Estate activities are an important part of the services sector in Dubai's economy and generated value added (in constant prices) of AED 28.7 billion in 2018, the fifth most important economic sector by value. The sector employed a workforce of 44,230 in 2018, only 1.6 per cent of Dubai's total, but productivity in this sector is high generating value added of nearly AED 648,971 per employee, the second highest in the economy.

The value added in constant prices from real estate activities in Dubai grew strongly in 2018, rising by 7.0 per cent, which is over three and half times the growth rate of real GDP. The growth rate of the real estate sector in constant prices is expected to almost halve from its 2018 strength, achieving a growth rate of 2.2 per cent in 2019 and 3.6 per cent in 2020.

The Government's push to promote Dubai and the UAE as an attractive destination for expatriates, working individuals, tourists, and businesses has drawn investors from a broad pool of nationalities into the residential real estate sector. Investors are attracted by incentives such as 100 per cent business ownership for foreigners, 10-year visas for highly qualified individuals, investors, entrepreneurs and executives; a new 5-year retiree visa targeting those aged over 55 years old with AED 2 million real estate investment ownership. In addition, increased spending on landmark projects is drawing more investors into the Emirate. According to Dubai FDI, foreign inward real estate investment, especially in residential buildings, almost tripled in 2018 compared to 2017.

Residential and non-residential real estate investment accounted collectively for 23 per cent of total of all capital spending in that year. According to a report carried out for the Department of Economic Development by global real estate consultants John Lang LaSalle (JLL),[1] the office market in Dubai experienced rising costs, with certain companies consolidating and it is expected that landlords will offer more appealing terms such as competitive rates, fit-out contributions, rent-free months, active asset management and lease re-gears.

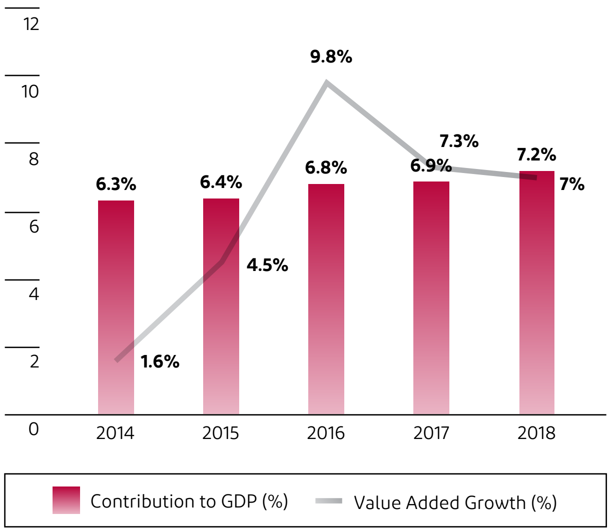
1 Real Estate Impact Study, Dubai Final Report, JLL, Department of Economic Development - DED (Dubai Economy) 17th February 2019

The Economic Importance of Real Estate Activities

8.1 The real estate sector is a major contributor to GDP growth in Dubai. The sector continued to grow strongly at a real rate of 7.0 per cent in 2018, compared to 6.9 per cent in 2017. This rapid growth, which exceeded GDP growth at 1.9 per cent for the same year, in constant prices, led to a rise in the contribution of real estate activities as a share of real GDP from 6.9 per cent in 2017 to 7.2 per cent in 2018. The real estate sector also contributed to almost one fifth of Dubai's total GDP growth in 2018, which is the second highest contribution among the other key economic sectors.

Although the real estate sector plays an important role in Dubai's economy, it employed only 1.6 per cent of Dubai's total workforce in 2018. Average labour productivity, measured by constant prices value added per worker was AED 648,971 per employee in 2018 — the second highest among the main economic sectors in Dubai's economy, (Figure 8.1).

Figure 8.1: The Contribution of Real Estate Activities to Real GDP (%)



Source: Dubai Statistics Center

Developments on the Supply Side

The supply of real estate in Dubai is broken down into two main segments, each driven by different economic forces: the residential market and the business market, with the latter comprising the office, retail and hospitality sectors. Major recent developments that impact the supply in each market are considered in the following sections.

Residential Supply

8.2 The stock of completed residential units in Dubai's real estate market (in the freehold and non-freehold categories) available to purchase or rent continued to grow in 2018. According to the JLL[2] report , the primary driver of the increased growth in available residential units constructed across all types — apartments, villas and other categories is the continuing rise in organic growth of Dubai's population — nationals and expatriates. 42 per cent of the population was between 20 and 34 years of age in 2016 and this demographic cohort is a major driver of new household formation and the demand for housing.

In response to this demand, the supply of completed apartments built by both Government Related Enterprise (GRE) and private developers increased by 54,410 units in 2018, raising the stock from 432,278 in 2017 to 486,688 in 2018, a growth rate of 12.4 per cent. The number of completed villas rose by 15,030 from 96,222 in 2017 to 111,252 in 2018, a growth rate of 15.6 per cent and increasing their share of total housing units completed from 14.8 to 15.1 per cent. The category of other types of housing units — mainly Rooms, Arabic houses and Collective Households, including communities for employees and labourers, rose by 21.7 per cent to reach a total stock of 135,680 (Figure 8.2).

8.3 The resident population of Dubai is predicted to rise at an annual average rate of 1.46 per cent between 2018 and 2022 as a result of organic growth that along with demographic change is driving supply. The average household size was 4.33 in 2016 and has been declining at a cumulative average rate of 0.3 per cent since 2011 and is expected to continue to fall as residents seek homes. Oxford Economics forecasts a further reduction in household size to 3.6 persons by 2035.

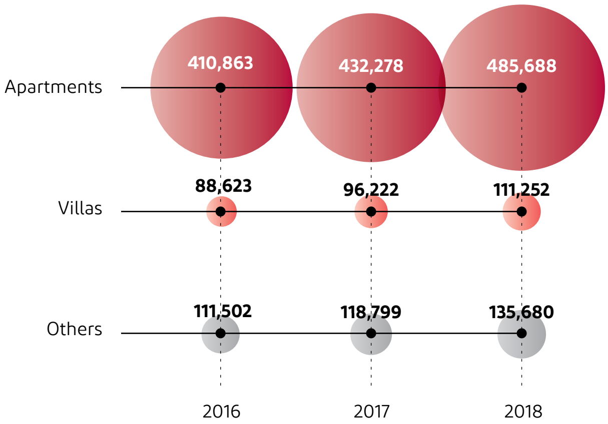
This anticipated future demand for residential properties is continuing to drive growth in the supply of residential units adding to the stock of Dubai's real estate. According to the JLL report there has been strong growth in the structure of demand towards affordable housing options. This has produced a large increase in the number of apartments under construction which more than doubled from 47,195 in 2017 to 116,270 in 2018, but there is a risk that the supply of residential apartments could increase ahead of demand in the coming years. This would create an excess supply of residential units on the market that could put further downward pressure on both sale prices and rents. In contrast, the demand for high end and luxury residential units has slowed down, partly as a result of the size of the existing stock of these products and more difficult economic conditions. As a result the supply of private villas under construction fell in 2018 by 3.3 per cent to 6,027 units while the construction of investment villas dropped significantly, more than halving from 18,753 to 7,010, (Figure 8.3).

8.4 The residential market has also evolved as existing tenants looking to become homeowners have been encouraged to invest in purchasing freehold properties. Flexible payment plans were introduced in 2016 to encourage the purchase of freehold properties and the data shows that freehold units are the main source of the increased supply of residential units, accounting for 94 per cent of all residential units in Dubai.[3] According to the JLL report most freehold properties are acquired on a strata basis.

The supply of new freehold units released in Dubai in 2018 reflects the planned shifts in the distribution of the Emirate's urban population. Dubai Land continued to have the highest number of completed units at 6,657 in 2018, virtually the same number as the year before, followed by Business Bay which saw a large leap of 259 per cent in the supply of completed new freehold units to 3,872 ahead of Dubai Silicon Oasis which came third with 1,592 units completed, a fall from 3,708 in 2017, (Figure 8.4).

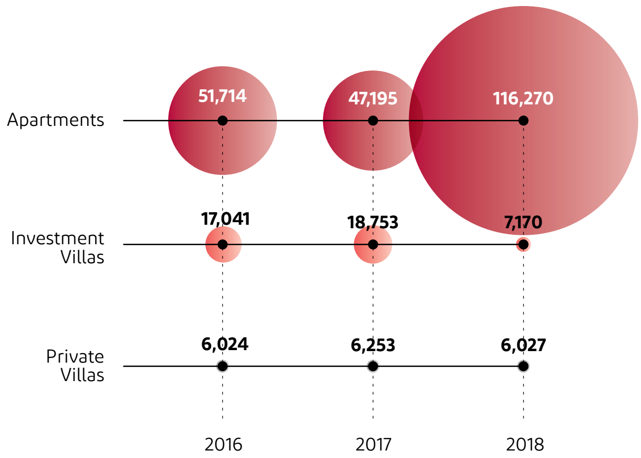
2 "Real Estate Impact Study, Dubai" by Jones Lang LaSalle (JLL) for the Department of Economic Development (DED), 17 February 2019 (unpublished).
3 Source: Dubai Statistics Center and REIDIN database.

Figure 8.2: Stock of Completed Housing Units



Source: Dubai Statistics Center

Figure 8.3: Supply of Buildings under Construction



Source: Dubai Statistics Center

Figure 8.4: Distribution of New Freehold Units in Dubai in 2018

Source: REIDIN Database

Real Estate Transactions

8.5 The continued softening of the residential property market in 2018 meant that transactions (sales and mortgages) in the Dubai real estate market decreased in terms of value and number in 2018, declining in value from AED 284 billion in 2017 to AED 223 billion in 2018. There were 69,044 transactions in 2017, compared to 53,553 transactions in 2018, a decrease of 22 per cent. Sales accounted for about 33 per cent of the value of real estate transactions, while mortgages accounted for about 54 per cent, (Figure 8.5).

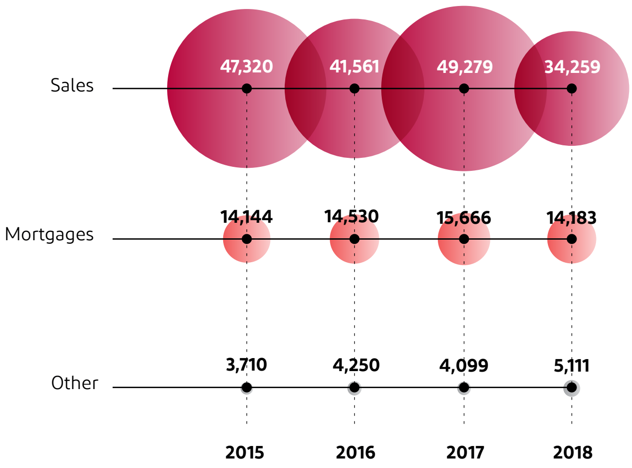
Distribution of Sales by Area in Dubai

8.6 The distribution of real estate sales across Dubai differed considerably by area. In 2018, the Business Bay area saw the highest number of sales in Dubai with AED 11,622 million changing hands through 4,431 transactions. Palm Jumeirah followed, with sales volume reaching AED 9,690 million as a result of 1,604 transactions. Dubai Marina ranked third with more than 3,780 transactions worth more than AED 9,127 million. Sheikh Mohammed bin Rashid Gardens and Burj Khalifa followed in the fourth place, with a total sales value of AED 8,464 million. Al Merkad was in fifth place with 2,029 sales worth a little more than AED 8,421 million, (Figure 8.6).

8.7 The softer conditions in the residential real estate market in Dubai, resulting from oversupply and weak demand due to slowing economic growth and lower average oil prices, has impacted asset values in recent years. Data on real estate prices shows that the average price in the freehold residential market was AED 12,918 per square metre in 2018, down from AED 13,803 per square metre in 2017. This is a continuation of a trend that began after 2014 when the average price was AED 15,469, (Figure 8.7).

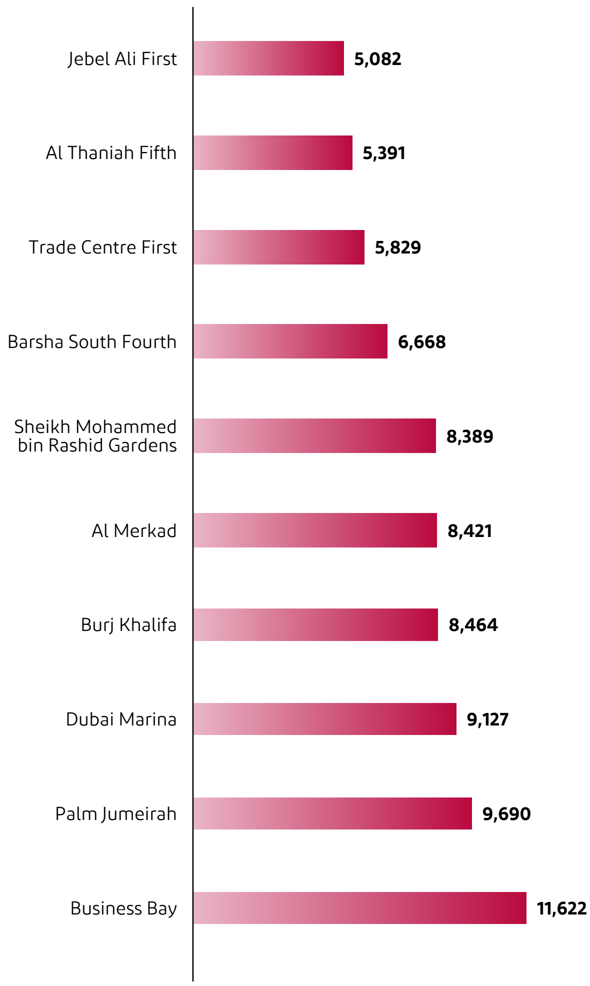
The decline in residential property sale prices also affected the value of rents in Dubai, which dropped from AED 79 per square metre per month in 2017 to AED 72 in 2018, a fall of 8.9 per cent. This had a negative impact on rental yields with the rate of return on leases falling slightly to 6.86 per cent in 2018 compared to 7.06 per cent in the previous year. The fall was due to the rapid decline in rents after 2015 associated with lower real estate prices, (Figures 8.8 and 8.9).

Figure 8.5: The Movement of Real Estate Transactions in 2018 (number of units)



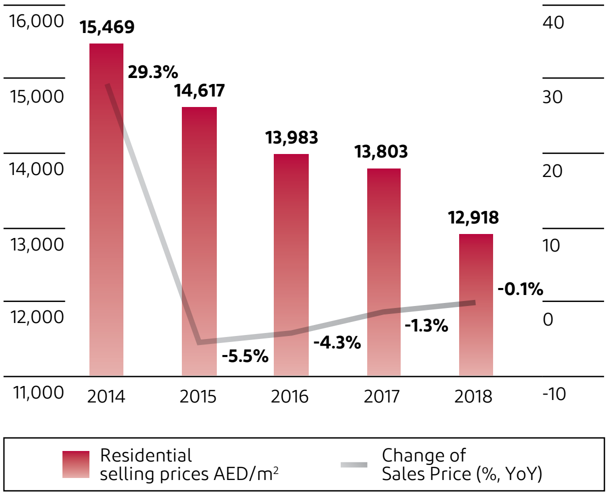
Source: Dubai Statistics Center

Figure 8.6: Sales Value by Area in Dubai in 2018 (AED million)



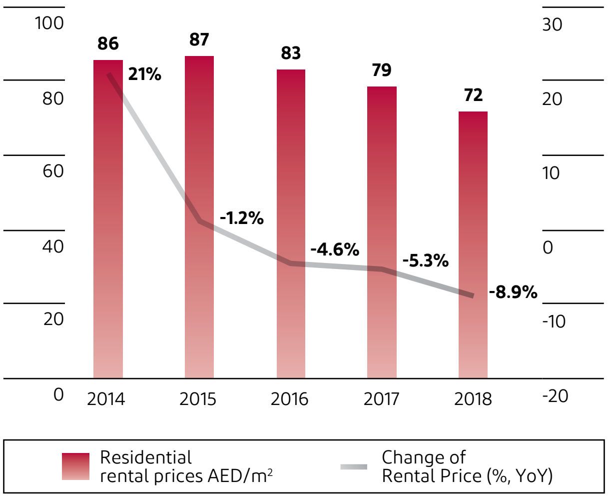
Source: Dubai Land Department

Figure 8.7: Dubai Residential Property Average Sale Prices



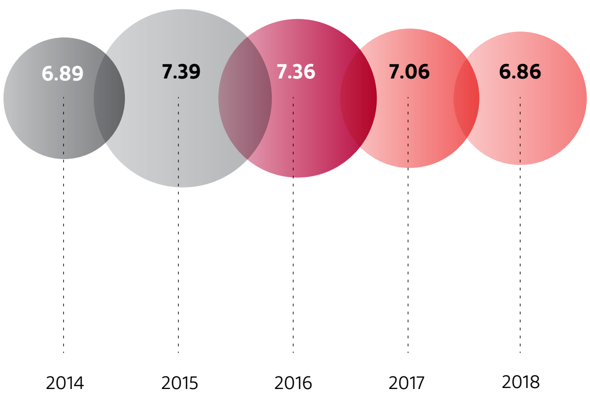
Source: REIDIN Database

Figure 8.8: Dubai Average Monthly Rent Prices (AED/sq. metre)



Source: REIDIN Database

Figure 8.9: Dubai Rental Income Returns (%)



Source: REIDIN Database

Business Supply

8.8 The business segment of the real estate market in Dubai consists of the office, retail and hospitality markets. In 2018 there has been a slower growth in the additional supply of real estate in the office and retail sectors while in the hospitality segment, the number of new hotel rooms grew in line with the past 5-year average of 5,300 per annum .

Office Market

8.9 The demand for office space is determined by the level of employment, which is driven by the rate of new business formation, and the expansion plans of existing businesses. The subdued economic conditions in recent years combined with continued investment in office stock has meant that supply has been outstripping demand increasing vacancy rates putting downward pressure on lease rates. According to the JLL report the supply of office space provided by GRE and private developers increased by a cumulative annual average growth rate of 6.6 per cent between 2010 and 2018, but this is expected to slow down as a result of current market conditions to an annual average rate of increase of 13 per cent until 2022. This slowdown in the growth of supply was realised in 2018 when the newly completed office space in the freehold communities decreased sharply from 87,199 square metres in 2017 to 8,706 square metres in 2018. Despite this decline in supply, the continued surplus in office space amid decreasing demand led to a decline in Dubai office rents by almost 17 per cent year-on-year to reach AED 1,553 per square metres and the vacancy rate has increased to 11 per cent in the Central Business District (CBD) .

The office market has experienced rising costs and certain companies are consolidating. In the face of this environment the government has carried out a number of measures to stimulate the demand for office space. The government reduced the market fee imposed on business by the Dubai Municipality from 5 per cent to 2.5 per cent. This measure in combination with 100 per cent foreign business ownership, 10-year visas for highly qualified individuals, investors, entrepreneurs and executives, should increase foreign investment into Dubai. This will draw more businesses from broader pool of nationalities into the available quality commercial space across the emirate. Furthermore, as part of the Dubai Industrial Strategy 2030, the Department of Economic Development's authority responsible for small and medium enterprises (SMEs) has announced new regulations for incubators and business accelerators. The initiative is expected to provide support to universities, colleges, venture capitalists and entrepreneurs to turn their ideas into tangible developments, employment with the aim of advancing economic growth and the demand for office space.

Retail Market

8.10 The situation in the retail real estate property market in Dubai is similar to that of the office property with the need to adjust to market imbalances. The supply of retail property declined from 82,134 square metres in 2017 to 30,331 square metres in 2018. In addition, traditional retail outlets are facing intensifying competition from non-physical e-commerce sites, which are expected to play an important role and could challenge the retail sector's demand for space in the future. Average retail rents in primary and secondary malls declined by 13 per cent and 22 per cent, respectively in 2018 over the year before. Current market conditions are favourable to tenants and many are able to re-negotiate rents on favourable lease terms and landlords continue to offer concessions such as sharing operating costs. According to the JLL report, the imbalance between supply and demand means that rents are expected to continue on a downward trend for the next 12 months, (Figure 8.10).

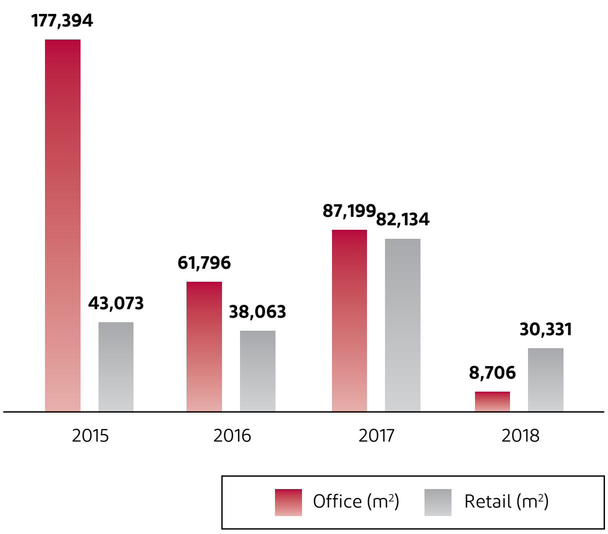
Hotel Property Market

8.11 The supply of real estate for the hospitality market is driven by the demand for accommodation. According to JLL, the hospitality supply of rooms grew by a cumulative average annual rate of 8.3 per cent in the years 2010 till 2018 and in that year around 5,400 rooms were added, which is in line with the past 5-year average growth of around 5,300 rooms per annum. As Expo 2020 approaches, close to 24,600 rooms are expected to enter the market within a two-year period. The hospitality market is currently facing a challenging time. Demand has suffered as traditional key market feeders in Europe were impacted by the appreciation of the US dollar, while visitors from neighbouring countries were affected by the decline in oil prices. The announcement of the reduction of tourism fees from 10 per cent to 7 per cent by the Government of Dubai is expected to increase occupancy levels in the hospitality market, as hotel rates become more attractive to consumers.

Global Real Estate Transparency Index

8.12 The attractiveness of a real estate market for investment is a function of the level of transparency. International real estate company John Lang LaSalle (JLL) publishes the Global Real Estate Transparency Index that ranks the real estate markets of 100 countries and 158 cities across the world. It is a composite index that comprises 6 sub-indices: performance measurement; market fundamentals; governance of listed vehicles; regulatory and legal; transaction processes and sustainability. The index produces a global rank and classifies real estate markets into bands of highly transparent, transparent, semi-transparent, low-transparency and opaque markets. Dubai, ranked in 40th place, leads the Middle East and North Africa real estate markets in terms of transparency by international rank. Nevertheless, it is still classified in the semi-transparent category. The Government of Dubai is working to improve the Emirate's performance in all of the areas that comprise the index, (Table 8.1).

Figure 8.10: Supply of Completed Office and Retail Spaces in Dubai



Source: Dubai Land Department

Table 8.1: Global Real Estate Transparency Index for the Middle East and North Africa

Country	International Ranking	Level of transparency
Dubai	40	Semi transparent
KSA	54	Semi transparent
Abu Dhabi	55	Semi transparent
Egypt	57	Semi transparent
Bahrain	62	Opaque
Morocco	63	Opaque
Jordan	68	Opaque
Kuwait	70	Opaque
Oman	82	Opaque
Tunisia	83	Opaque

Source: John Lang LaSalle

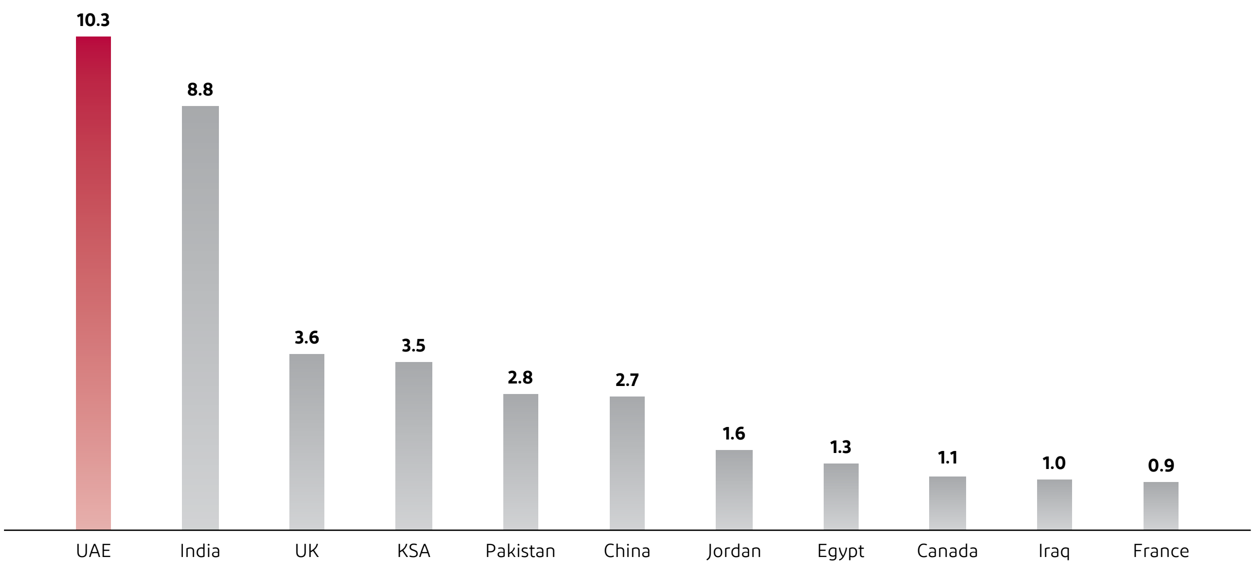
Top Investors in Dubai Real Estate Market

8.13 The real estate market in Dubai has attracted a significant amount of direct domestic and foreign investment. UAE nationals topped the list of investors in Dubai's real estate in 2018, investing AED 10 billion in estate properties. A steadily increasing Emirati population, and a growing supply of real estate – particularly residential – means that the local population is set to maintain their leading share of total property investment. Indian investors were the second biggest investors in the real estate market in Dubai, with investments amounting to AED 9 billion. British investors came in third place with more than AED 4 billion, followed by the Saudis and Pakistanis equally with investments of AED 3 billion each. Chinese, Jordanian, Egyptian and Canadian investors came afterwards, (Figure 8.11).

Real Estate Investment Trusts (REITS)

8.14 There is great potential for the real estate market in the UAE in general, and Dubai in particular, to attract indirect more domestic and foreign investment through the medium of real estate investment trusts (REITS). These investment vehicles are closed end funds and offer liquid and flexible investment in real estate with tax advantages without the complications and transaction costs involved in direct property ownership. REITS, originally established in the USA, are now spreading worldwide as investment vehicles, are established to generate a steady stream of income from investment properties usually from rental incomes with the added potential of capital appreciation of the value of the underlying assets and increases in the value of equity. There are currently two listed REITS in the UAE, Emirates REIT and ENBD REIT, both based in Dubai and listed on Nasdaq Dubai. Emirates REIT and ENBD REIT invest in Sharia-compliant real estate assets such as office buildings, warehouses, retail malls, schools and car parks. The Dubai Financial Market (DFM) has published regulations on the listing of REITS in anticipation of a further growth in this real estate investment vehicle in the Emirate.

Figure 8.11: Real Estate Investments in Dubai by Nationality in 2018 (AED billion)



Source: Dubai Land Department