



بنك الإمارات دبي الوطني
Emirates NBD

Sector
Economics
29 January 2017

2016 Dubai Real Estate Update

Real estate sector grew 5.3% in Q1 2016

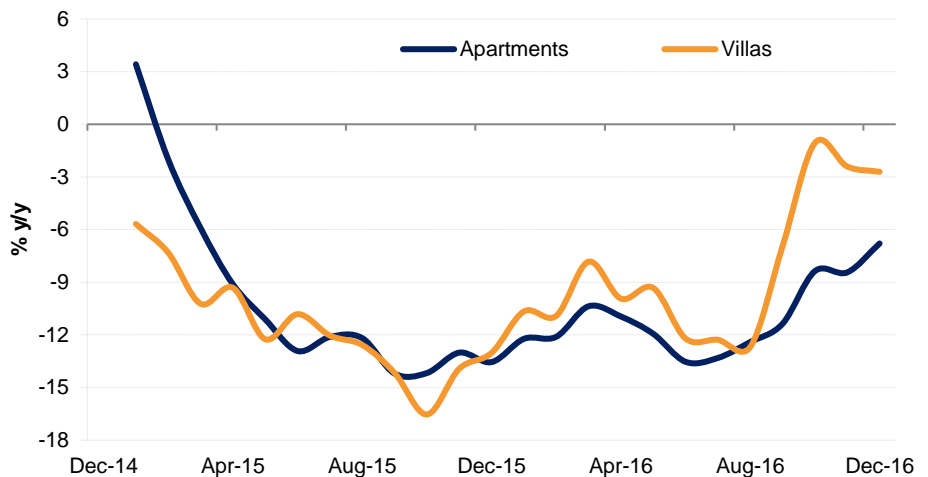
The real estate sector accounted for 6.7% of Dubai's GDP in Q1 2016. Growth in the sector accelerated to 5.3% y/y in Q1 2016 from 3.5% in Q1 2015, according to the revised data from Dubai Statistics Centre. However, the easing in real estate prices is still evident with several factors contributing such as increased supply, USD strength and economic developments in investors' home markets. None of these factors are likely to change materially in the near-term in our view. However, higher oil prices and improved sentiment ahead of Expo 2020 suggest that further downside may be limited.

Dubai residential property prices ease at a slower rate

Residential property prices declined in 2016, but at a slower pace than in 2015. Phidar Advisory's Dubai 9/5 House Price Index, which is based on DLD data but includes only nine apartment communities and five villa communities in investor zones in Dubai, showed apartment prices down -6.8% y/y and villa prices down -2.7% y/y at the end of December. On a m/m basis, the average monthly price decline for apartments in 2016 was -0.6% per month compared with -1.2% per month in 2015. For villas, prices fell an average -0.2% per month in 2016 vs -1.1% per month in 2015. Apartments account for about 90% of residential real estate transactions in Dubai.

The lower-priced segments of the market have fared better than the luxury (premium) segment. Low and mid-range (standard and standard-plus) villas saw price rises in Q4 2016, up by 15.0% and 2.8% y/y, respectively, while standard apartments saw prices decline only -1.3% y/y for the same quarter. However, we caution that the last quarter is typically stronger in terms of real estate activity and the improvement may not be sustained in Q1 2017. The strength of the USD still remains a constraint on demand, particularly for foreign investors.

Dubai residential property prices



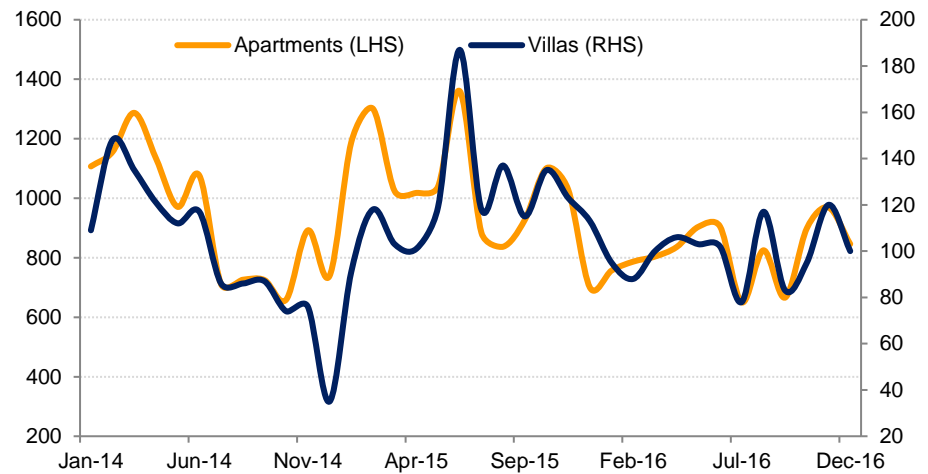
Source: Phidar Advisory, Emirates NBD Research

Transaction volumes lower in Q4 16 compared with Q4 15

We have noted in previous reports that the decline in residential real estate prices over the last year has been accompanied by lower transaction volumes in all areas of Dubai. This has been particularly evident in the villa sector. Overall, transaction volumes declined by -16.1% y/y in Q4 2016 compared with 29.0% growth recorded in Q4 2015. On an annual basis however, the total number of sales was up by 16.4% y/y in December due to higher apartment transactions (20.9% y/y). The number of villas sales recorded in December was down by -11.5% y/y for the same period.

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Dubai residential transaction volumes (whole of Dubai)



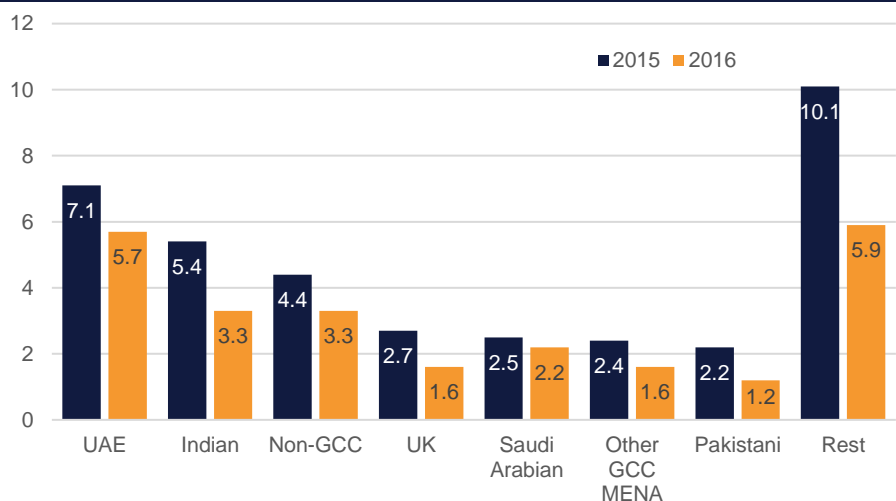
Source: Phidar Advisory, Emirates NBD Research

Looking at the areas included in Phidar Advisory’s 9/5 Index, both apartment and villa transactions decreased y/y in Q4 2016, with most of the activity in the high-range (or premium) segment for apartments and the standard segment for villas. Overall, affordability is still a constraint but there is demand for residential properties at the lower priced end of the market.

Lower investment in real estate in 2016

The total value of real estate transactions in Dubai reached USD 70.5bn in 2016, down by -3.7% compared with the 22.5% jump in 2015, according to the latest report from the Dubai Land Department (DLD). Similarly, the total value of real estate investment transactions reached USD 36.8bn in 2016, down by -32.6% compared with 2015.

Investment in Dubai real estate, of total 36.8 USDbn

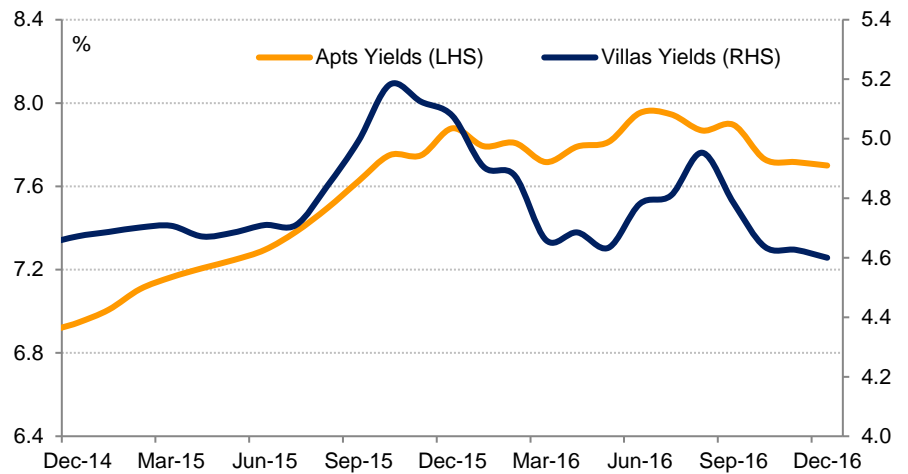


Source: Dubai Land Department, Emirates NBD Research

Rental yields remain high in 2016

Rents in the Dubai 9/5 Index areas have declined on an annual basis in December, more or less aligned with the annual fall in sales prices. Apartment and villa rents were down in December by -9.4% and -11.4% y/y, respectively. Yields on apartments remained unchanged in December at 7.7% averaging 7.8% in 2016 compared with 7.4% in 2015. Similarly, yields on villas remained unchanged in December at 4.6% averaging 4.7% in 2016 compared with 4.8% in 2015.

Dubai residential yields

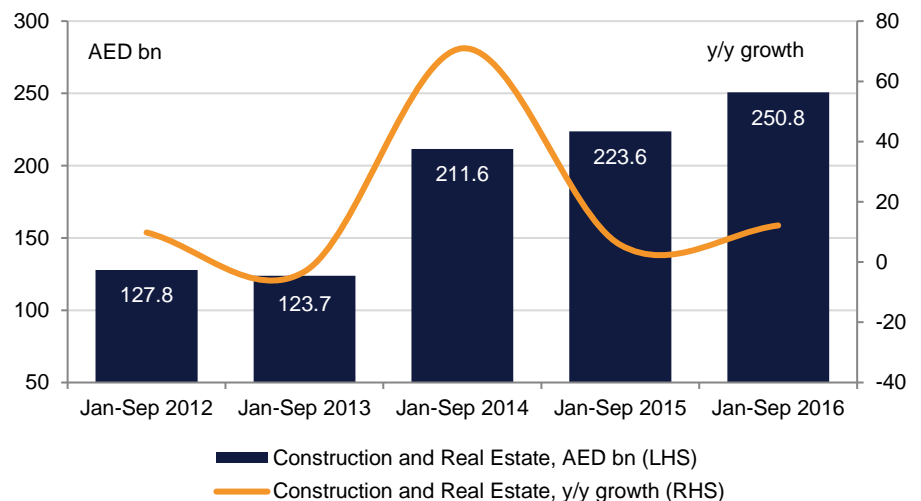


Source: Phidar Advisory, Emirates NBD Research

Bank credit to construction & real estate sector robust

Lending to the construction and real estate sector expanded 12.2% y/y in Jan-Sep 2016 to AED 251bn, up from 5.7% y/y in Jan-Sep 2015, with loans to this sector accounting for 17.3% of total bank loans. Demand growth for loans in the sector was slightly down in Q3 2016 compared with the previous quarter but is expected to improve in the December quarter, according to the Q3 2016 Credit Sentiment Survey by the UAE Central Bank. **We expect credit to construction and real estate to further increase in 2017 given the number of projects underway.**

Bank credit to the construction & real estate sector*



*The big jump between Jan-Sep 2013 and Jan-Sep 2014 is due to UAECB's re-classification of customers by the introduction of new reporting forms.
Source: UAE Central Bank, Emirates NBD Research

¹Phidar Advisory's house price index covers nine established apartment developments and five established single family home (villa) communities in Dubai. Phidar uses four residential quality classifications: Luxury, Premium, Standard Plus and Standard. The areas included in the Dubai 9/5 Index are:

Apartments

Premium

Downtown - Residences
Dubai Marina - Original 6

Standard Plus

Old Town
South Ridge
Palm Jumeirah - Shoreline
Emirates Living - Greens
Dubai Marina - MAG218, Marina Heights, Wave
JBR

Standard

Dubai Marina - Marina Diamond 1-6
DLT - Saba, V3, Paladium, Armada
Motor City - Uptown Buildings
Discovery Gardens - Mogul/ Med
International City - Country Cluster

Villas

Premium

Arabian Ranches Villas (eg Mirador)
Palm Jumeirah - Garden villas

Standard Plus

Arabian Ranches Townhouses (eg Reem)
Jumeirah Islands
Lakes

²Phidar Advisory's commercial price index covers four established office locations in Dubai. Phidar uses three commercial quality classifications: Grade A, Grade B and Grade C. The areas included in the Dubai Index are:

Offices

Grade A

JLT Grade A

Grade B

Business Bay Grade B
JLT Grade B
Discovery Gardens Grade B
TECOM Grade B

Grade C

JLT Grade C
Discovery Gardens Grade C
TECOM Grade C

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