



بنك الإمارات دبي الوطني
Emirates NBD

Sector
Economics
23 March 2017

Dubai Real Estate Update

Real estate sector grew 6.8% in Q3 2016

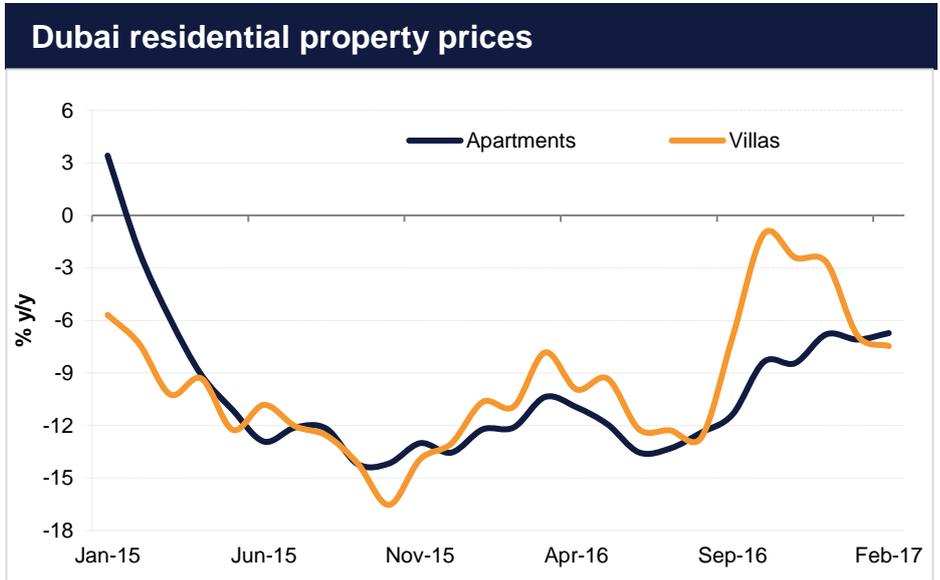
The real estate sector accounted for 6.3% of Dubai's GDP in Q3 2016. Growth in the sector accelerated to 6.8% y/y in Q3 2016 from 3.3% in Q3 2015, according to the revised data from Dubai Statistics Centre. However, the easing in real estate prices is still evident with several factors contributing such 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

Residential property prices remained relatively unchanged in February 2017.

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 -6.7% y/y and villa prices down -7.5% y/y at the end of February. 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 declines in February, down by -1.0% and -3.3% y/y, respectively, while standard plus apartments saw prices decline of -2.8% y/y for the same month. The strength of the USD still remains a constraint on demand, particularly for foreign investors.

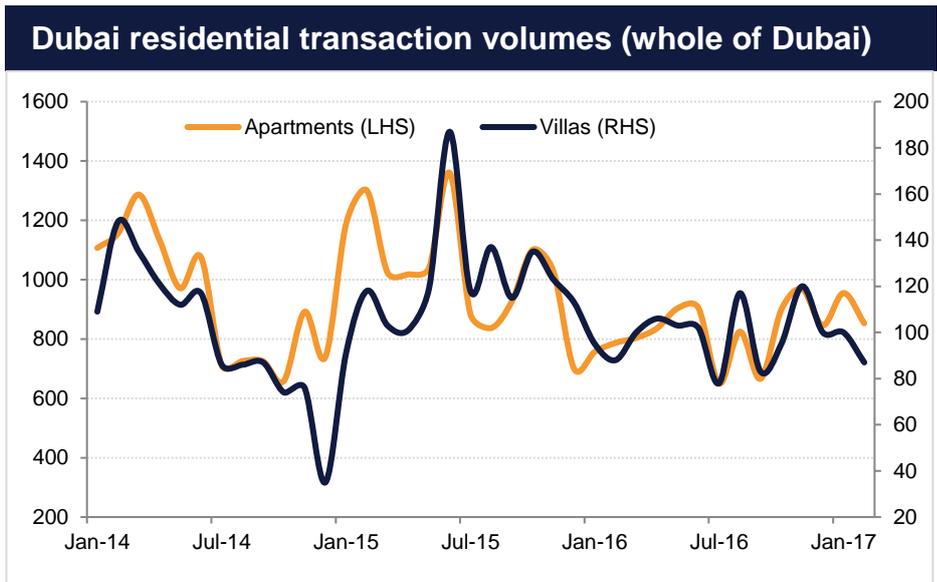


Source: Phidar Advisory, Emirates NBD Research

Transaction volumes lower in February

We have noted in previous reports that the decline in residential real estate prices 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 -10.9% y/y in February 2017 compared with 11.5% growth recorded in the previous month. On an annual basis however, the total number of sales was up by 7.4% y/y in February due to higher apartment transactions (8.4% y/y). The number of villas sales recorded in February was down by -1.1% y/y for the same period.

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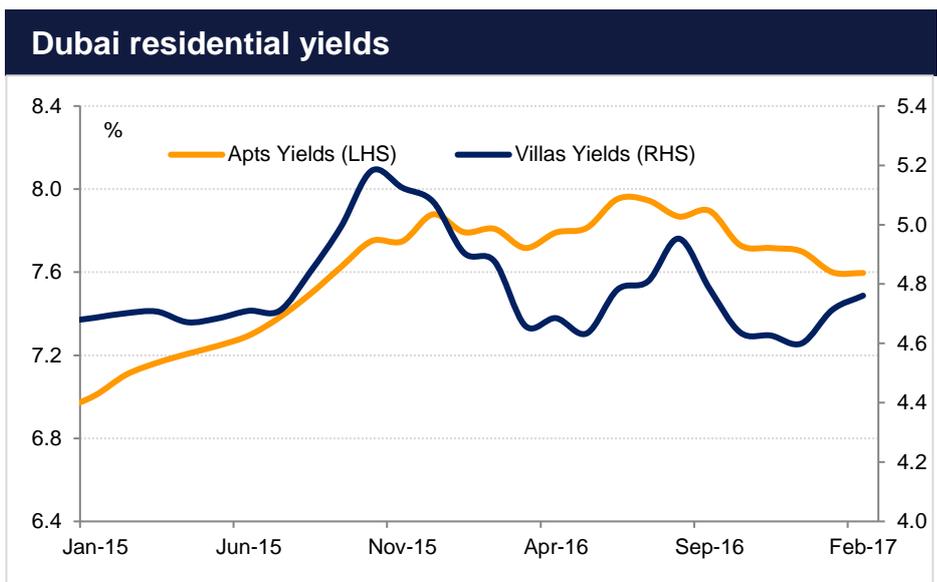


Source: Phidar Advisory, Emirates NBD Research

Looking at the areas included in Phidar Advisory’s 9/5 Index, villa transactions decreased y/y in February while apartment transactions were slightly up, 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.

Rental yields remain high in February

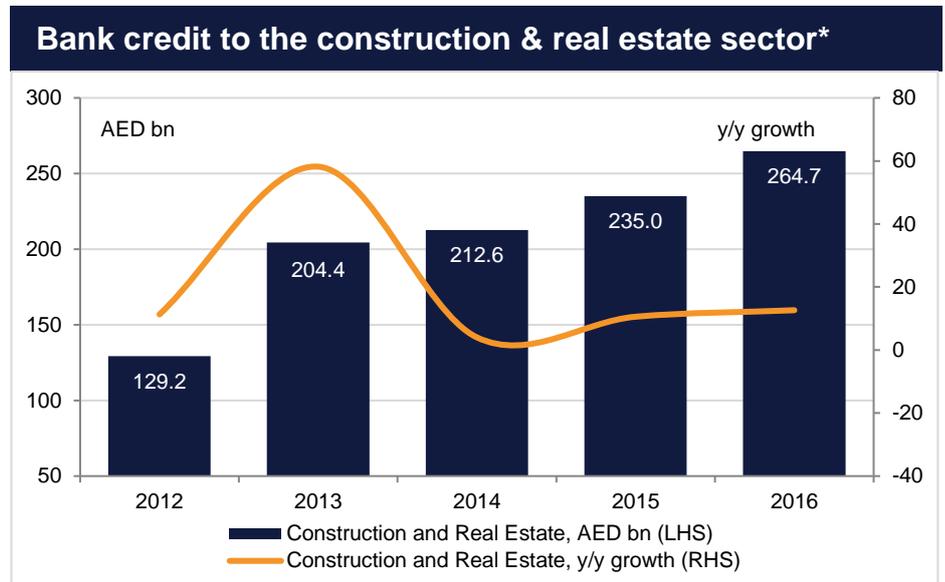
Rents in the Dubai 9/5 Index areas have declined on an annual basis in February, more or less aligned with the annual fall in sales prices. Apartment and villa rents were down in December by -9.3% and -9.6% y/y, respectively. Yields on apartments and villas remain unchanged at 7.6% and 4.8% respectively in February. Nevertheless, rental yields are still relatively high while the tightening of the rental market should keep putting downward pressure on sales prices.



Source: Phidar Advisory, Emirates NBD Research

Bank credit to construction & real estate sector robust

Lending to the construction and real estate sector expanded 12.6% y/y in 2016 to AED 265bn, up from 10.6% y/y in 2015, with loans to the sector accounting for 18.2% of total bank loans. Demand growth for loans in the sector softened modestly in Q4 2016 compared with the previous quarter but is expected to improve in the March 2017 quarter, according to the Q4 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.



*The big jump between 2012 and 2013 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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