



# Building Confidence

A review of Dubai's  
residential real estate  
market





# Foreword

Real estate markets operate in cycles and the market in Dubai is no different.

Recent pressures in the Dubai residential real estate sector have prompted increasing discussion amongst investors in the region, with some raising concern that the sector may experience significant price adjustments. While adjustments should be expected in any market, there are a number of factors which suggest any corrections are likely to be less severe than those experienced in 2008. While the oil price remains well below the long term average, which is clearly having an effect on market confidence, the improved regulatory environment, the broader investor profile and the increased maturity of the market are all indicators that the real estate market should eventually self-correct.

In this briefing on Dubai's residential real estate market, we examine the internal and external factors that are currently affecting the market and the regulatory changes that the government introduced subsequent to 2008. We also identify five key trends that are likely to affect the residential market in Dubai in the short and medium term.

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# SECTION 1: Market in Dubai

## Transactions data



Source: Dubai Land Department

## Change in apartment and villa sale prices and rent rates between 2014 - 2015



11-13% drop in sales prices

3-4% drop in rents

Source: JLL and REIDIN

## Most impacted areas on basis of rent rates (highest declines first)



Villas

Arabian Ranches  
Meadows  
Jumeirah Park



Apartments

Sheik Zayed Road  
Deira, Tecom, JLT, JBR  
Dubai Marina  
Downtown Dubai

Source: Asteco and KPMG

## Most impacted areas on basis of sales value (highest declines first)



Villas

Palm Jumeirah  
Arabian Ranches  
Jumeirah Golf Estates



Apartments

Dubai Marina  
Green Community  
Palm Jumeirah

Source: Cluttons, Asteco and KPMG

## 1 Reduced impact

While in some quarters thought persists that real estate investors in Dubai might be faced with price adjustments similar to those observed in the months and years following peak prices in 2008. However, there is a strong argument that the real estate market has become significantly more resilient since then.

The overall magnitude of decline in real estate prices has been notably tempered; a result of vastly improved regulations within the Emirate's real estate sector as well as significantly different triggers resulting in a larger, global macroeconomic slowdown.

### 1.1 Tempered fluctuations

Conditions in 2008 resulted in a sharp and profound decline in residential real estate prices. For example, the Residential Sales Index published by REIDIN declined 14.8% during the 6 month period after peak levels observed in August 2008. Comparatively, the residential sales price index has decreased at a much lower rate; falling by 6.4% in the six months after the October 2014 peaks.

2015 has seen declines in both residential property values and transactions. Data from the Dubai Land Department suggests sales volume was down by around 30% by the end of November 2015 compared to the same period in 2014. A recent report from JLL also indicates that average sales prices have fallen by up to 13% in 2015 in some locations. However, more affordable housing areas have incurred lower declines and, in some cases, even maintained value - or rental yield.

Since deliveries of projects have been subdued in 2015 reports suggest that approximately 26,000 new units are expected to enter the market in Dubai in 2016. Nevertheless, on the side of caution, based on the prevailing market climate, it may be possible, that as low as only 30% of these unit deliveries may actually materialize.

### 1.2 Liquidity

As world markets are hit by a continuing wave of unrest and turmoil, liquidity is becoming challenging. That, along with a declining oil price, has put even further pressure on significant players in the regional market. Several large UAE banks seem reluctant to lend going into 2016. This may impact the ability of buyers to invest in the real estate market.



6-month decline in residential real estate prices after October 2014



6-month decline in residential real estate prices after August 2008



Expected delivery of new residential units in 2016 and 2017 in Dubai. Source: JLL

As a result, there will be pressure on availability of capital to buy properties in the primary and secondary market.

# SECTION 2: External Factors

## 2 Global uncertainty

External factors are likely to have played a significant role in the current downturn. Growing uncertainty in certain regions may have deterred investors from entering the market, while simultaneously encouraging other investors to exit, prompting reductions in sales prices.

These triggers are vastly different to triggers observed in 2008, where inherent issues with global financial systems were largely responsible for declining real estate markets.

**Outbound Middle Eastern investments in 2009**



**Outbound Middle Eastern investments in H1 2015**



Source: CBRE

### 2.1 Regional uncertainty

Dubai's (and the wider Middle East's) real estate sector may have been negatively impacted by current political instability in the Middle East. Sustained political and social unrest in countries such as Syria, Egypt, Yemen and Lebanon may have persuaded Middle Eastern investors to redirect their investments.

Data published by CBRE indicates that outbound investments from the Middle East were approximately US\$11.5 billion in H1 2015, compared to roughly US\$4 billion in the whole of 2009. These figures suggest that liquidity constraints (as in 2009) are not solely responsible for reducing investment within the local market. Investors seem to be making conscious decisions to invest in more stable and mature markets during a period of relative uncertainty.

### 2.2 Circumstances in China, Russia and Iran

Current extenuating circumstances in the global macro economy are likely to have prevented investors from entering Dubai's real estate market.

Uncertainty about China and Russia's short-term macroeconomic environments has already impacted global financial markets. The recent lifting of most secondary sanctions on Iran is likely to add a further complication to an already uncertain mix. The currencies of China and Russia have declined against the dollar which has had a significant impact on their purchasing power. Ongoing unsettled conditions in the global economy are likely to have dissuaded investors from entering Dubai's real estate market.

### 2.3 The US Economic climate

Proceedings in the US economy are also likely to have discouraged global investors from entering the UAE's real estate markets due to the UAE currency's peg against the US dollar.

The US dollar's recent appreciation against major global currencies will increase the cost of real estate in the UAE in comparison to other markets as a large portion of investors are from Europe and the Asian Subcontinent. In addition, the Federal Reserve System's decision to increase interest rates in the US will increase cost of borrowing for local purchasers.

### 2.4 The Oil price

Although Dubai's economy is comparatively highly diversified, falling oil prices still impact the ability of some buyers to invest in the local residential market. The government is expected to cut budgets to avoid deficits which in turn means slower infrastructure growth. Going forward, as Iran opens up, further pressure is expected on the oil price.

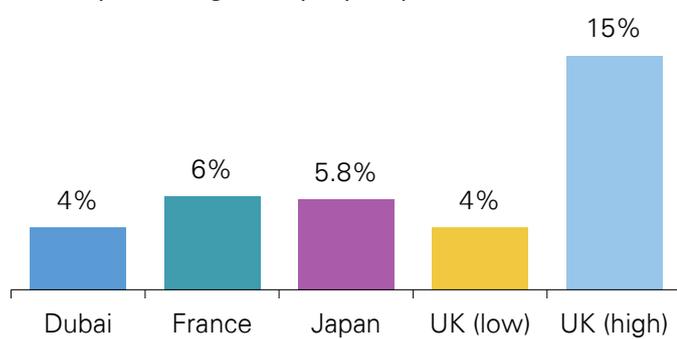
# SECTION 3: Curbing turmoil

## 3 Regulatory changes

The very reason for introducing regulatory measures was to reduce the impact of market disruptions. These regulations seem to have been consciously and primarily aimed at reducing speculative behaviour, attracting stable capital, and thereby creating a market that is less susceptible to large scale volatility. One example of this is the new Mortgage Cap (see section 3.4) but there are many others, such as increased property transfer fees.

Some of the key regulatory changes are explained below.

Comparable global property transfer fees:



Source: KPMG research

### 3.1 Property transfer fees

In September 2013, the Dubai Land Department increased transfer fees for each property transaction from 2% of the property value to 4% of the property value. Dubai's higher transfer fees are more in-line with stable real estate markets such as France (6%), the UK (4-15%) and Japan (5.8%). This regulation was also designed to prevent purchasers from engaging in speculative activities such as "flipping" properties. Reduced market speculation should lead to a more stable market that is less susceptible to changes in the external environment.

### 3.2 RERA and the Rental Index

The Government of Dubai introduced the Real Estate Regulatory Agency (RERA) in 2007 to regulate the real estate market in the emirate. Following the 2008 crisis, all of Dubai's real estate development and brokerage companies were forced to register with RERA. It is now mandatory for all real estate brokers to register with RERA in order to operate in Dubai.

Subsequently, the Government of Dubai had issued Decree No. 43 of 2013 concerning the percentages of maximum property rent increase that are to be allowed upon renewal of tenancy contracts; this was formally published as the RERA Rental Index.

The RERA Rental Index has been updated as recent as January 2016, where rents have generally seen a decline between 3 – 8 % across Dubai as compared to the previous index issued in. That said, the rental decline is slower in pace as compared to the decline of the residential property values and therefore yields across the market have been much better than expected – showing clear signs of maturity.

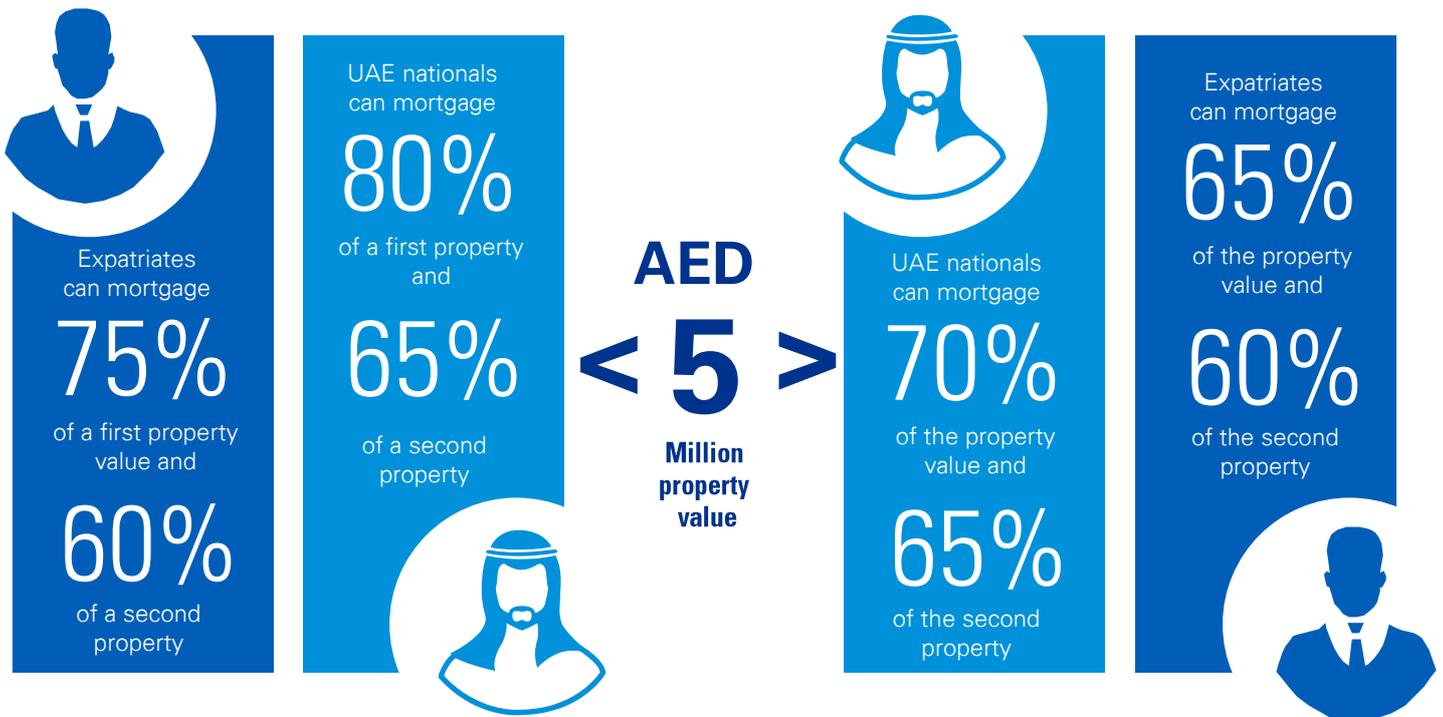
### 3.3 Escrow account enforcement

One of the key regulations imposed by RERA was the establishment of escrow accounts in 2007. This helps investors limit their exposure when investing in off-plan projects by protecting their deposits until certain development milestones are met.

The escrow regulations also specify that each project must have its own escrow account. Amounts are monitored to ensure that they are only utilized for the respective project. This significantly helped eliminate 'fly by night' developers from the market.

### 3.4 New mortgage caps introduced by the UAE Central Bank

The UAE Central Bank has set individual limits to the amount that a UAE national or an expatriate can borrow for purchase of properties, based on a percentile of the total value of the property (Loan to property value ratio; LTV).



Source: UAE Central Bank

The only current exception to the above LTVs are loans to UAE nationals under government housing programs.

### 3.5 AI Etihad Credit Bureau

In another move to curb over-spending and instill sustainable liquidity measures, the UAE’s Central Bank capped total loan installments at 50%

That was followed by the launch of the AI Etihad Credit Bureau (AECB) in 2012. The AECB was set up to amalgamate up-to-date financial information on individuals and organisations looking for credit, giving banks and financial institutions the data they need to make informed decisions while also helping borrowers to better understand their financial obligations and the consequences of taking out a loan. The AECB initiative is likely to lead to a more stable real estate market in Dubai, and the wider UAE, as banks are able to access much more comprehensive consumer credit information.

Access to such information helps reduce the likelihood of banks exposing themselves to risky borrowers. At the same time, improved terms can be offered to borrowers with better credit profiles. This may further enhance the stability of the financial sector and, in turn, the real estate sector as it will reduce risk, and therefore costs, for banks.

# SECTION 4: 2016 & beyond

Even though Dubai's reliance on oil may be limited, investors in Dubai's real estate are impacted by the oil price. The strengthening dollar is also affecting the real estate market. Finally - and on a much higher level - the macroeconomic picture is unclear with the uplifting of secondary sanctions in Iran and underperforming China's economy.

Understandably then, a wait and watch approach can be expected unless there is a significant recovery in the global economic picture. The recent report from JLL explains how the market has already begun adjusting, with projects being delayed or scaled back to adjust to slowing demand in the market.

On the positive side, rental yields have not declined as much as property prices. Cityscape 2015, which took place in September in Dubai, did not see a large number of new developments, but there was a focus on restarting old projects and delivering existing schemes. Initiatives like the Dubai South development, which is expected to include a rent to buy scheme, and the developers' focus on providing affordable housing developments, should provide a push in the right direction.

Finally, when Expo 2020 and related infrastructure work really kicks in from 2017, we expect to see significant job creation, and increasing demand in construction sector and for residential space. While 2016 may be a challenging year in the short term, we believe there are five key features of the residential real estate market going beyond 2016:-

# 5

**key features  
of the future  
of Dubai's  
residential  
real estate  
market**



**Liquidity increasingly  
important as markets  
tighten**



**Oil prices unlikely to  
recover in the short term**



**Flight to quality and rise of  
the end buyer**



**Affordable housing -  
future focus**



**Short-term softening until market  
returns to growth in the run-up to Expo  
2020**





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