



Dubai Residential

Just Being Mean

An analysis of the Ready Market

Executive Summary

- International Comparisons

Real Estate Markets in Los Angeles and London have significantly outperformed that of Dubai; however in the last 12 months, we have seen a trend reversal, given a myriad of factors. Lagged correlation analysis (0.84 and 0.97) implies that there should be a price moderation in Dubai going forward, especially in the luxury markets.

- Luxury Overperformance

Luxury price performance has generally been superior to middle and lower markets. Mean reversion, a statistical theory that suggests prices tend to oscillate around an average point, would suggest that the widening gap between luxury and the rest of the market is due to narrow. This suggests that there is greater “value” in the mid market going forward.

- Distinction Between Price Drivers and Transactional Volumes

Despite the ultra high net worth market’s superior performance, the majority of transactions have been occurring in the middle markets. This indicates a greater demand for ready properties that have average prices per square foot around 1200 AED or less. It is in this segment that we expect price “outperformance” to reassert itself as it did in the market cycle of 2014-19.



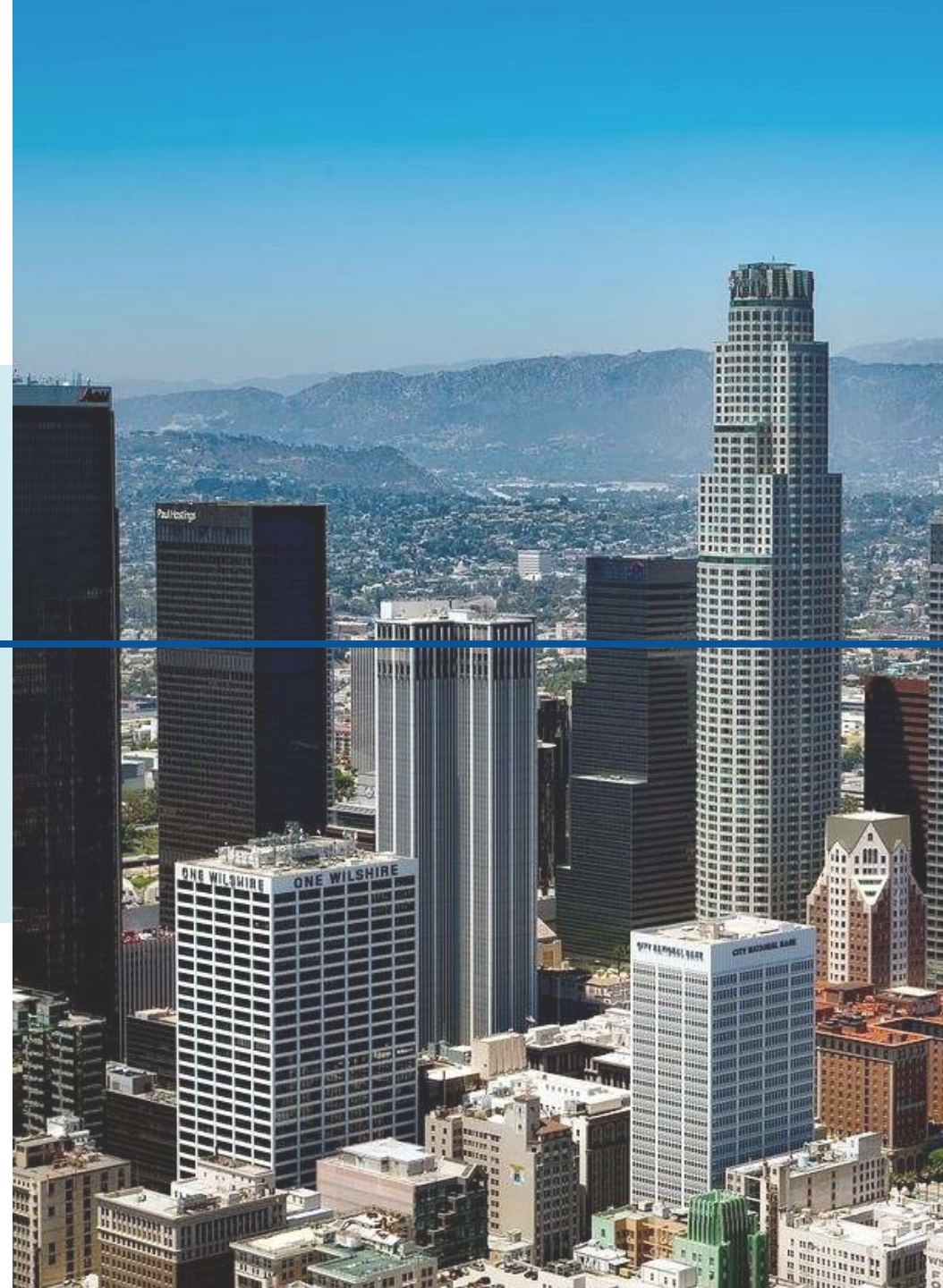
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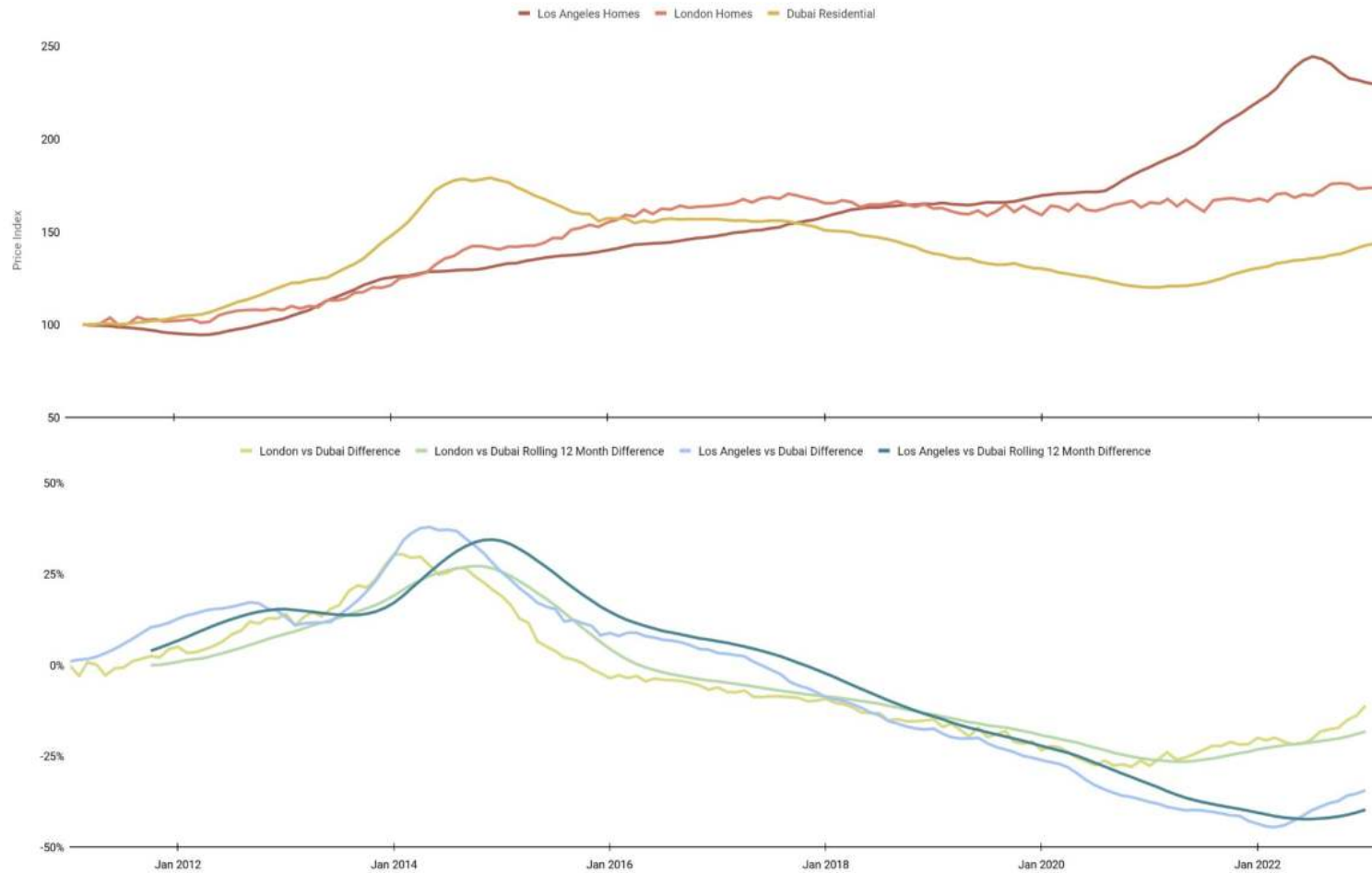
International Comparison

**"Few things are harder to put up with than the
annoyance of a good example."**

– Mark Twain

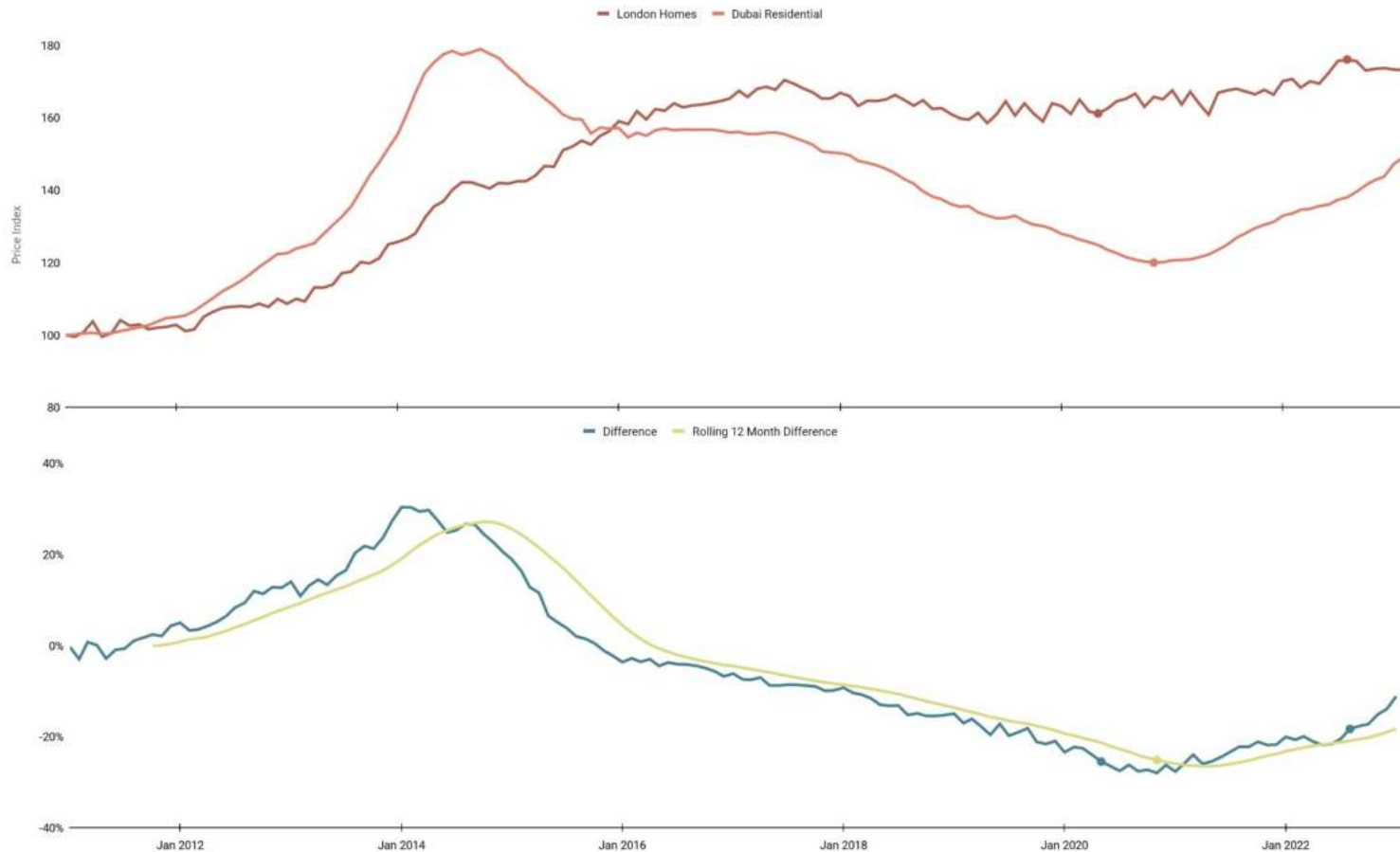


Comparing Dubai to London and Los Angeles



When analyzing the Dubai market for ready properties relative to international markets, there does not appear to be an immediate correlation. Indeed, the price index performances from January 2011 for ready properties has a correlation of 0.13 and 0.42 between Los Angeles and Dubai and London and Dubai respectively, indicating that London and Dubai properties move in greater tandem.

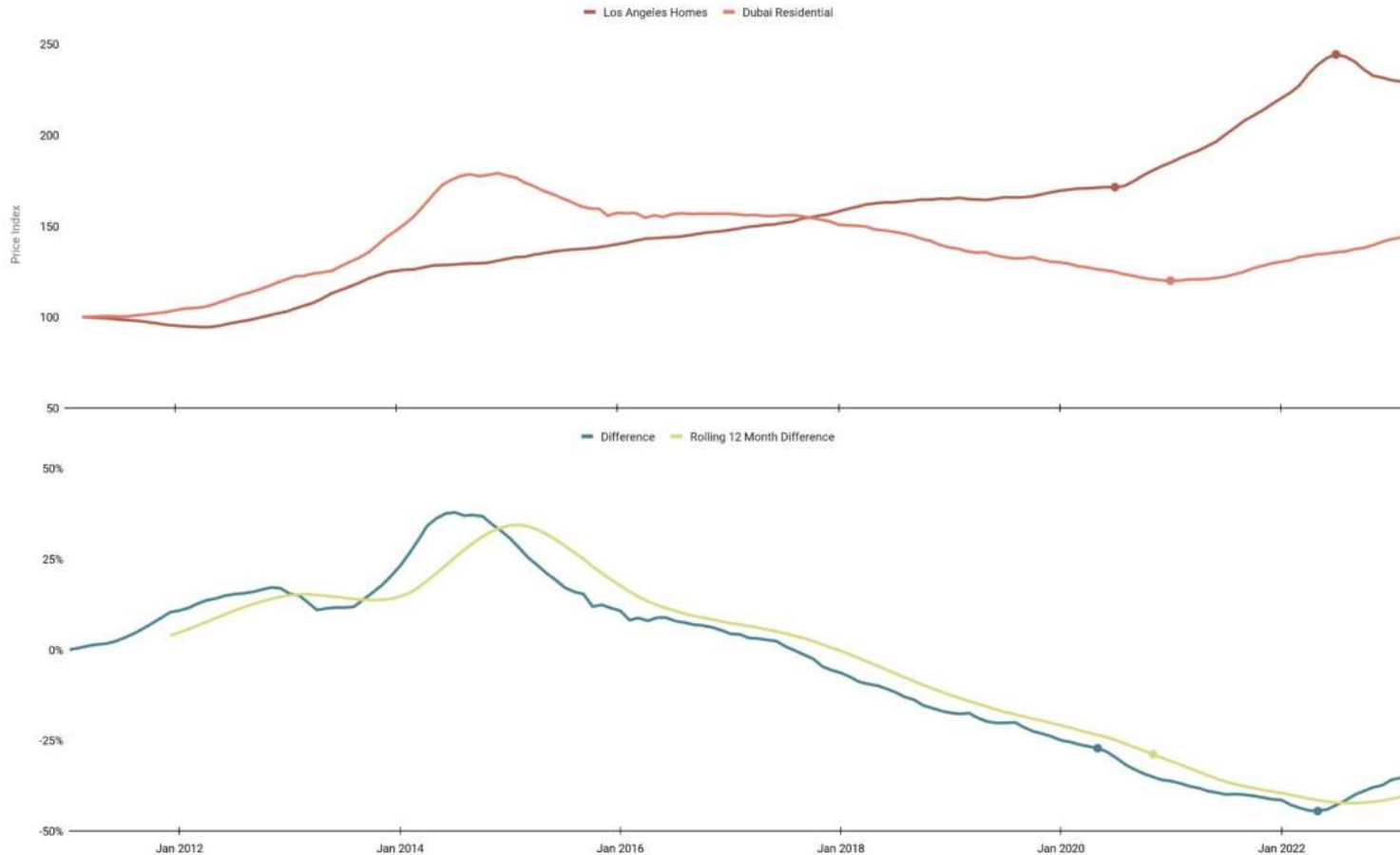
Applying a Lag to London's Market to Predict Dubai's Fortunes



In the post-COVID world, applying a lagged analysis, the correlation figures jump to 0.84 versus London. This implies that:

- A) There is a lagged effect in price performance between the two cities.
- B) That prices in Dubai will moderate as they have already done so in London.

Applying a Lag to Los Angeles' Market to Predict Dubai's Fortunes



Applying a similar lead-lag logic to Los Angeles reveals a staggeringly high correlation of 0.97. This indicates that post-COVID stimulus measures have fed into real estate asset prices in all prime cities, and given the fact that prices in Los Angeles has started falling, we expect similar price moderation in Dubai on a city wide basis.

The Overperformance of the Luxury Market

“Living in the lap of luxury isn’t bad except that you never know when luxury is going to stand up.”

– Orson Welles

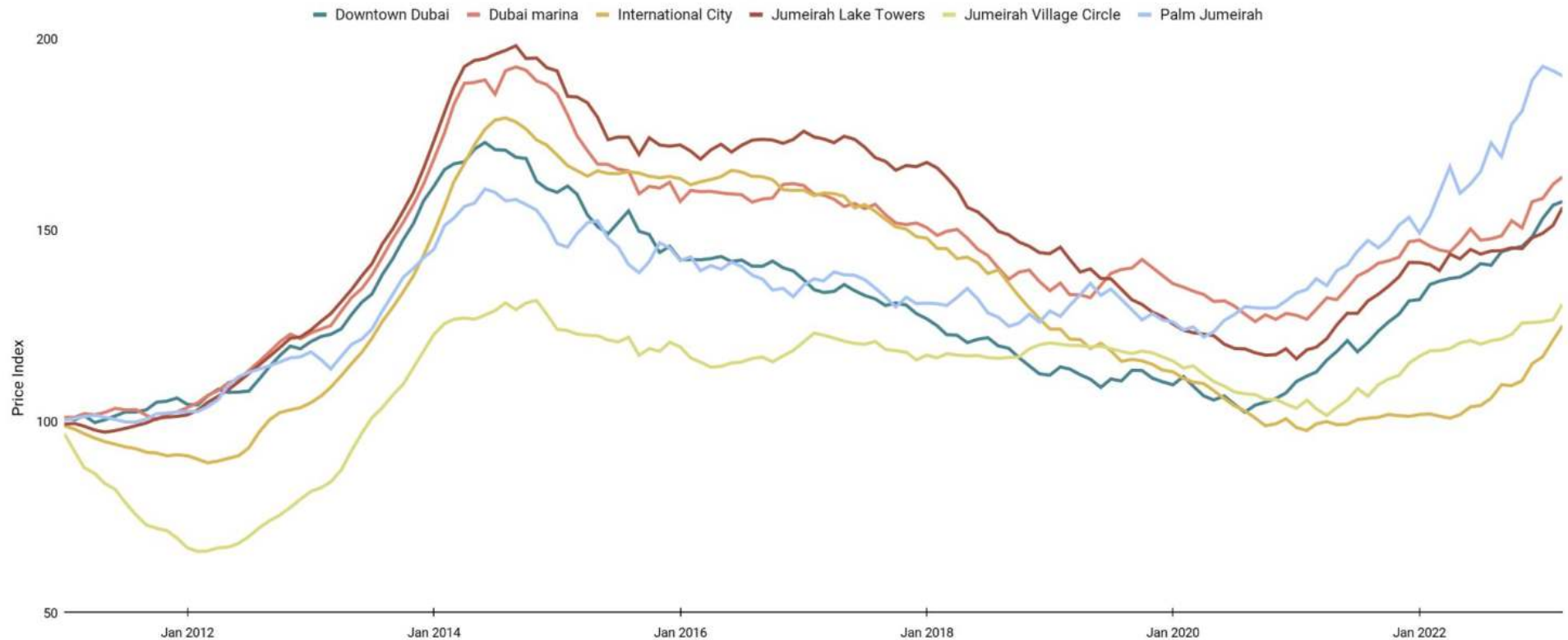


Apartments Demonstrate that Luxury is Outperforming Other Markets

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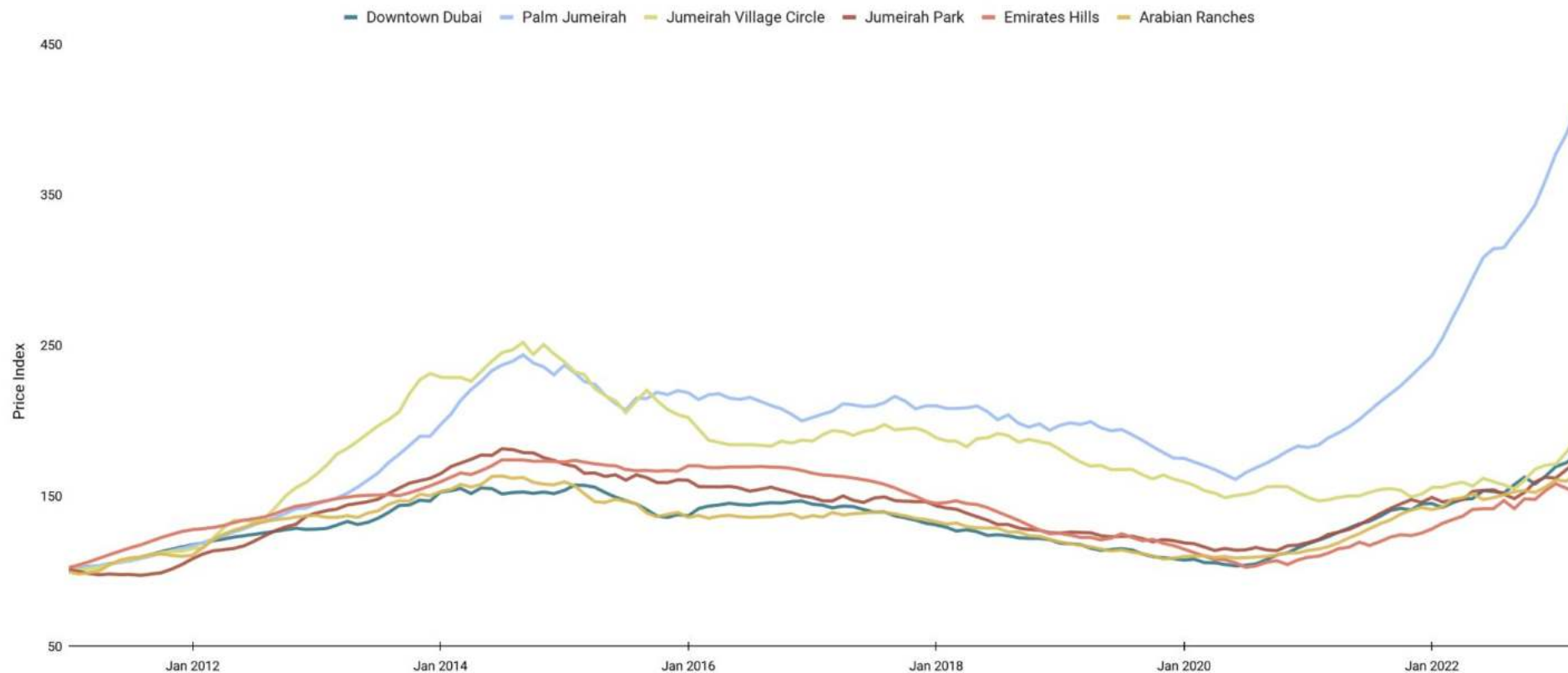
Price Index Performance from January 2011-April 2023 (Apartments)



As seen in the graph above, high-end markets like Palm Jumeirah have consistently outperformed for the last three years, as Dubai has endured through and emerged after the COVID-19 pandemic. This year, Downtown Dubai has also seen a price surge, rounding out a top three of the luxury markets that price indices tell us is seeing better growth than middle and affordable market counterparts like Jumeirah Village Circle and International City.

Villas Show Palm Jumeirah's Unique Hot Streak

Price Index Performance from January 2011-March 2023 (Villas)



When it comes to villas, we see that Palm Jumeirah maintains its astonishing dominance, while most other areas seem to perform similarly. This can lead to misinformed analysis if not properly accounted for, as Palm Jumeirah alone is outperforming enough to skew holistic price data for Dubai's entire real estate market upwards.

Luxury Overperformance - Apartments

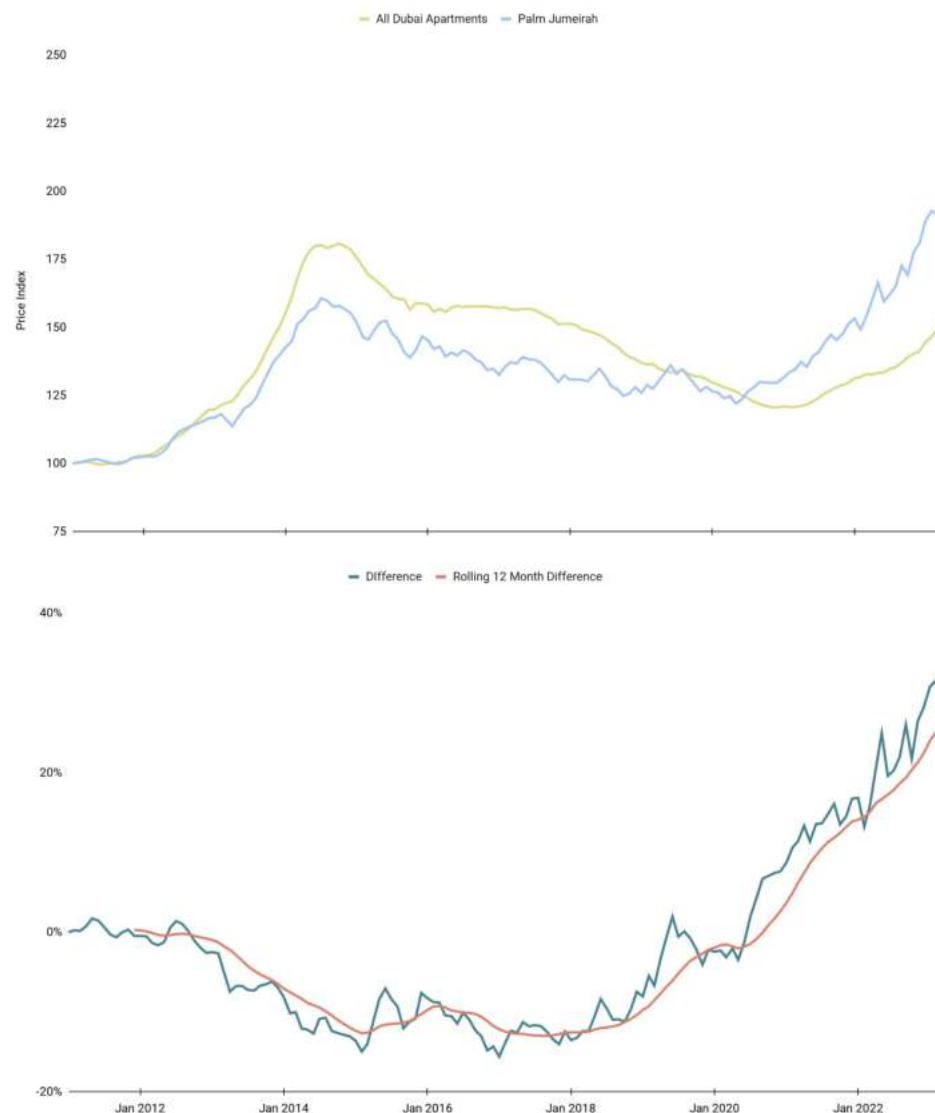


The recent widening gap between luxury (using Palm Jumeirah as a representative) and the overall market seems to suggest the breakdown of any mean reversion relationship in the apartment data going back to 2011. As of April 2023, the Palm's price index is up 55% after reaching a low of 122 in May 2020. By comparison, the overall ready apartment market is up 26% after reaching its low in December 2020.

The recent trajectory of the rolling twelve-month difference away from 0 (going back as far as October 2020) has shown that the gap has consistently widened for over two years.

A longer term view, however shows a mean reverting relationship, suggesting that the recent outperformance of the luxury sector is expected to moderate in favor of the mid market segment.

Dubai Apartments vs Palm Jumeirah



Luxury Overperformance - Villas



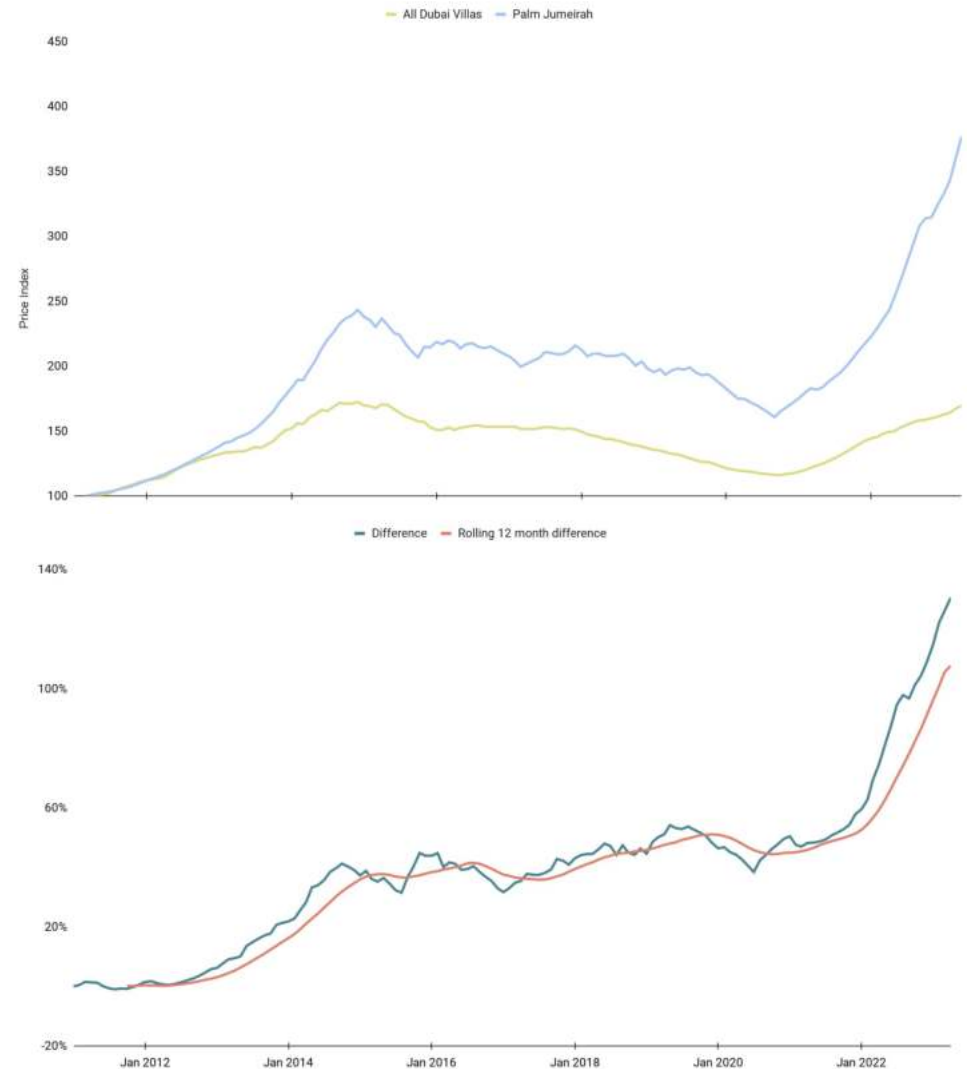
In villas, although the Palm appears to be consistently overperforming over a time period stretching back to around 2014, the separation between the two has also been consistently widening since October 2020.

In both cases, the gap has continued to grow this year, prompting many analysts to dub luxury as a micro-market of its own. As of April 2023, the Palm's price index is up 134.4% after reaching a low of 160.8 in September 2020. By contrast, the rest of the ready villa market is up 46.1% from its most recent low in October 2020.

Again, a longer term viewpoint suggests that that there should be a convergence towards other villa sectors, especially with greater choice being made available at the top end (such as with Palm Jebel Ali, Jumeirah Bay, etcetera).



Dubai Villas vs Palm Jumeirah



Distinction Between Price Drivers and Transaction Volumes

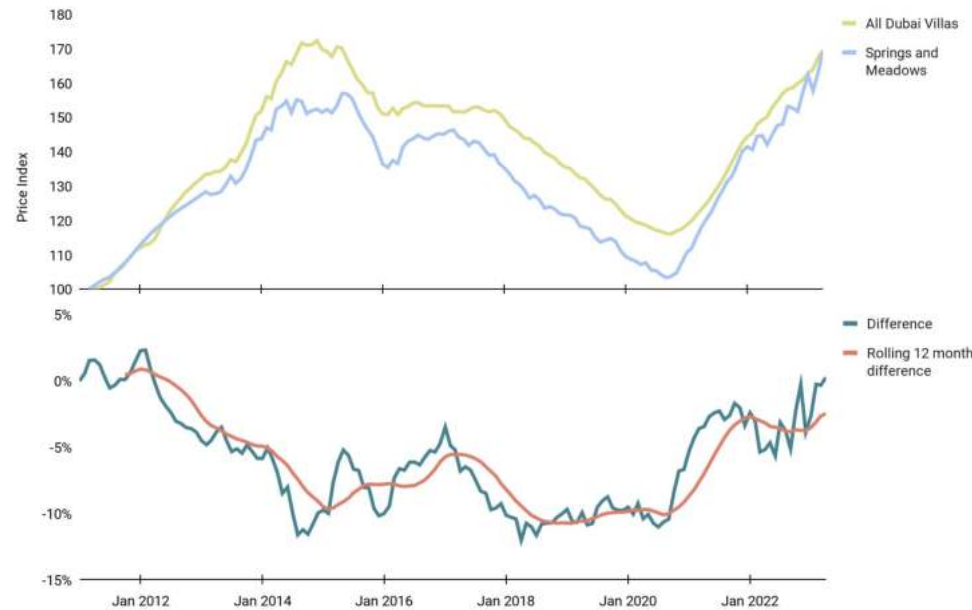
**“There’s a reason it’s called mean reversion and
not nice reversion.”**

-Ben Carlson

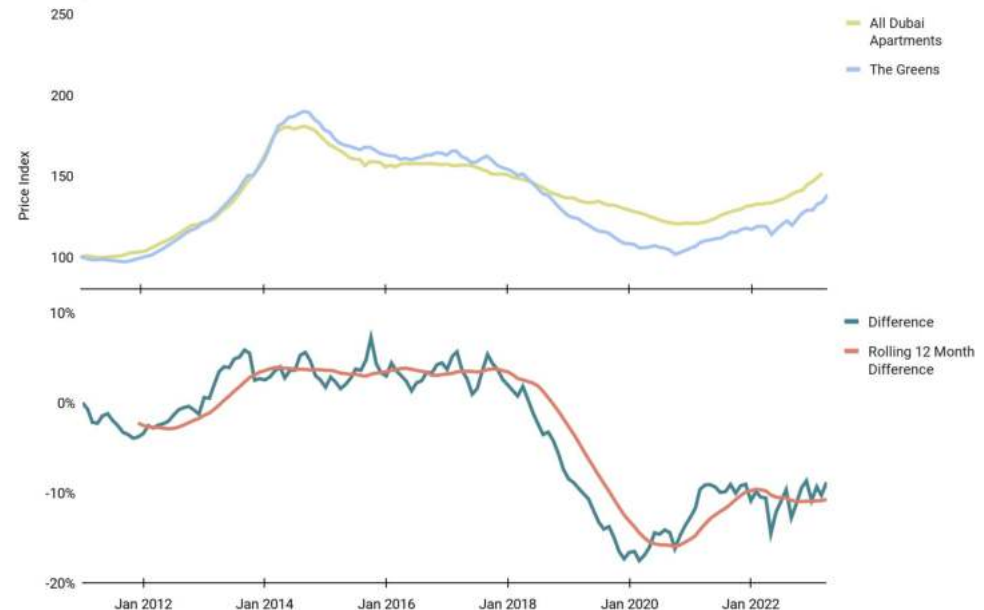


Middle and Lower Markets Already Exhibiting Mean Reversion

Dubai Villas vs Springs and Meadows



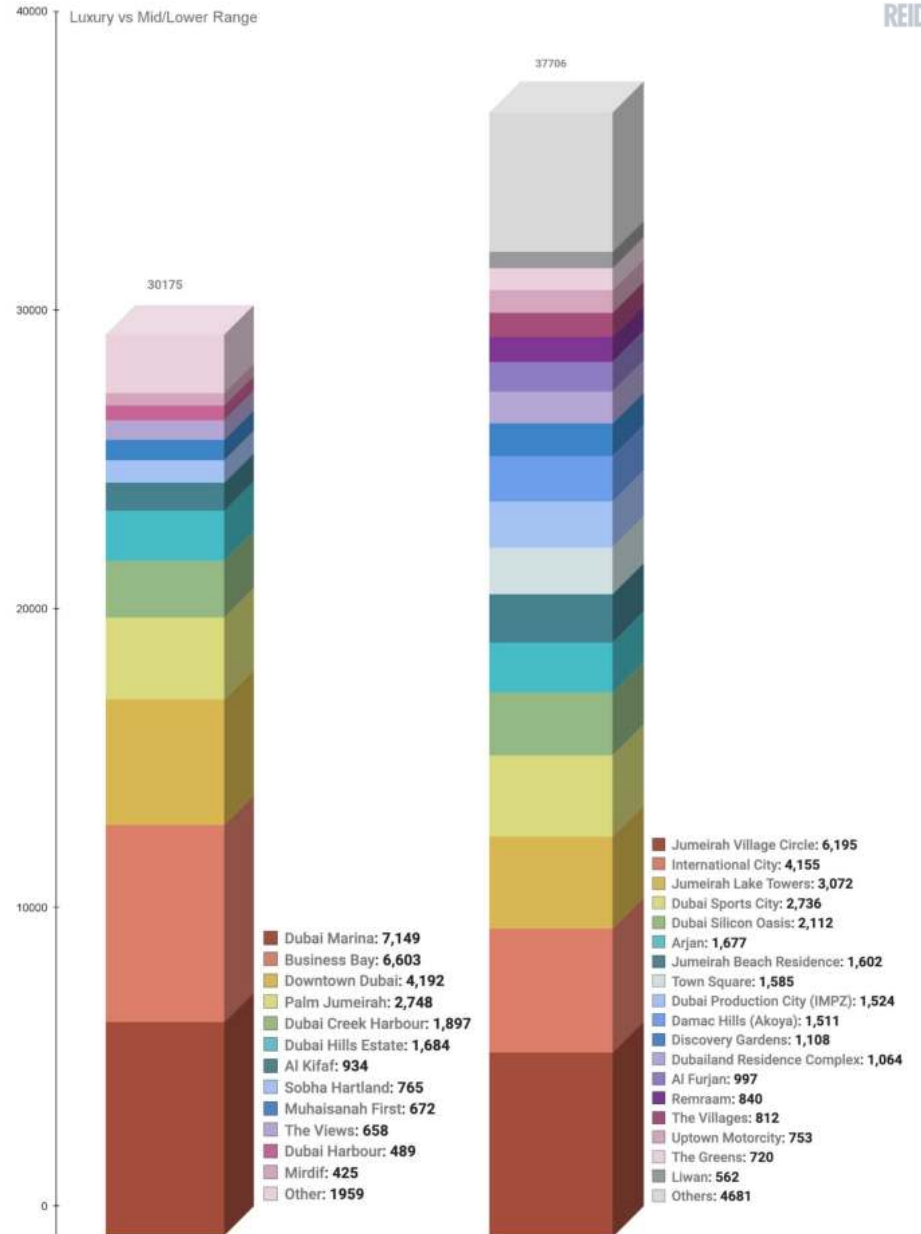
Dubai Apartments vs The Greens



We see the converse effect in the middle and affordable markets. Rather than the gap to the rest of the market widening, we see examples of parity in the middle market, as demonstrated above through the converging of the rolling twelve-month difference to zero for the mid market sample in the Springs and Meadows. We see a similar effect (albeit less pronounced) in the Greens, which suggests that some mid market communities will revert up faster than others, but the general trend remains the same.

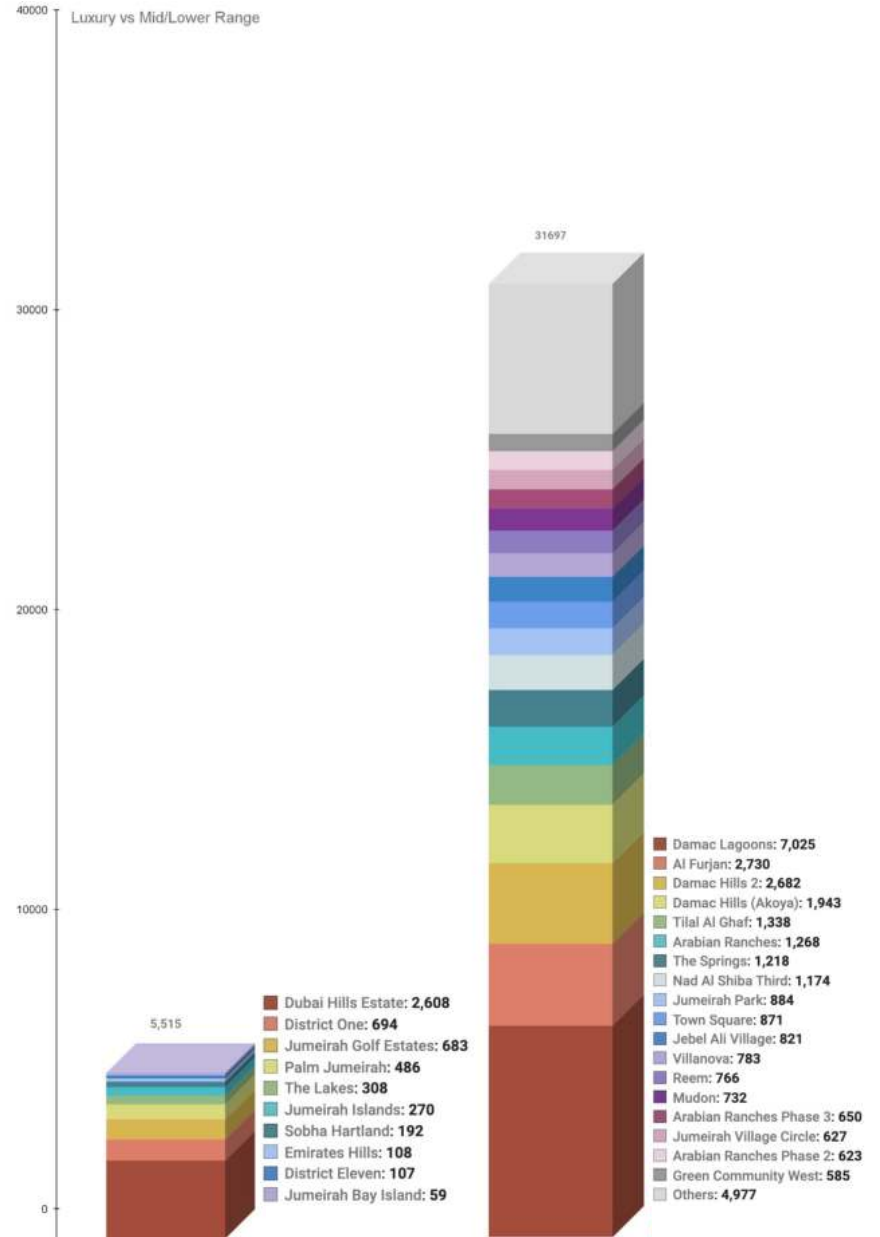
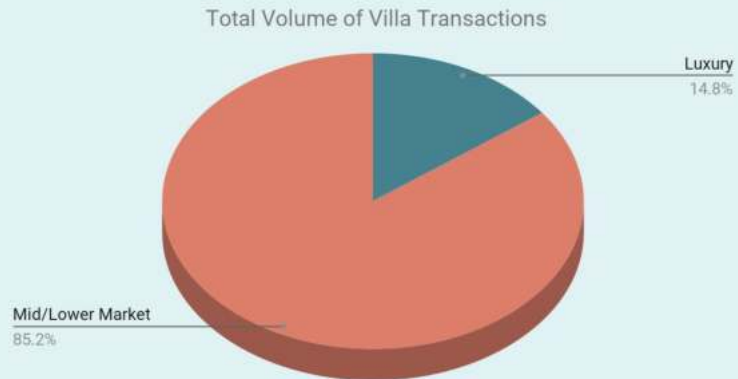
Do Not Let the Data Deceive - Apartments

As demonstrated in the graphs to the right and below, the mid/affordable markets outnumber luxury in terms of transaction volumes over the last three years. The share of Luxury market transactions has increased, implying that the mid market segment will regain its share as investors start to discern value in these areas.



Do Not let the Data Deceive - Villas

This is particularly evident in villa data over the past three years. Despite a wider gap between luxury villas like the Palm Jumeirah and the rest of the market, these transactions only make up less than 15% of all ready villa sales during the same period. Clearly, the demand seems to be concentrated more in the middle/affordable markets. Consequently, it is reasonable to anticipate that these sectors should overperform in the coming months.

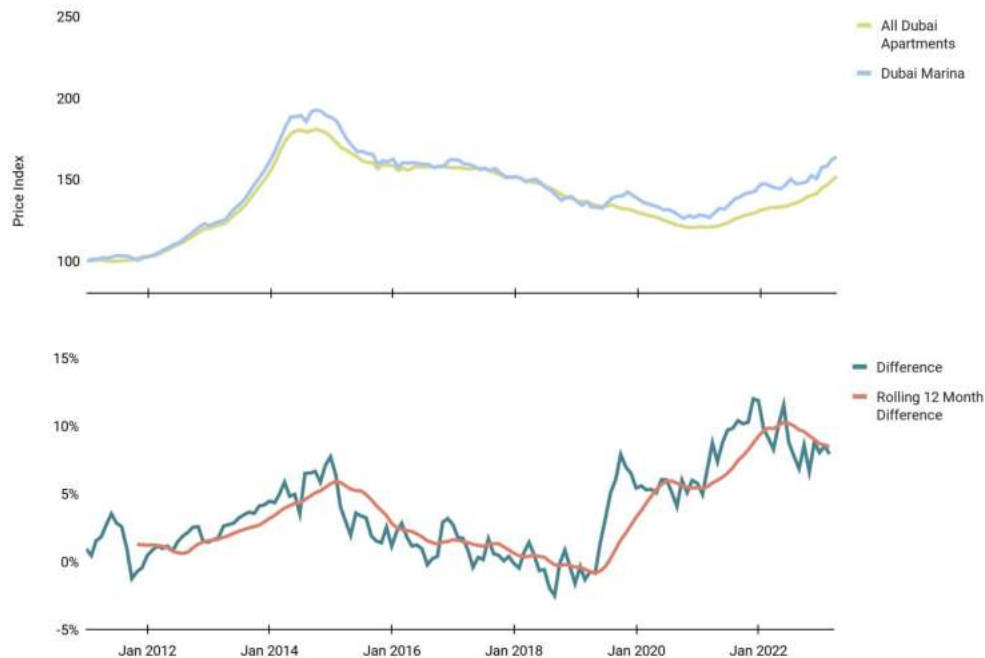


Gap Between Luxury and the Rest of the Market Narrowing

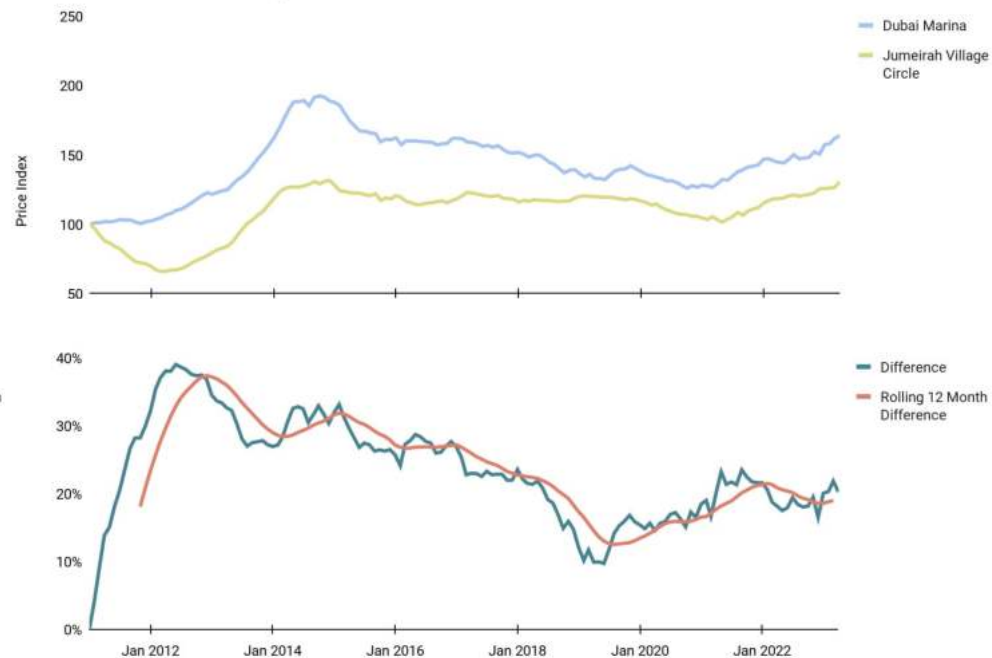
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Dubai Apartments vs Dubai Marina



Dubai Marina vs Jumeirah Village Circle



With the exception of the Palm (which has been the best performing area in Dubai by far), we can already see that the gap between luxury and the rest of the market is narrowing. The example of Dubai Marina apartments shows that the overperformance relative to the rest of the market is starting to cool down, as seen in the 1.67% drop in the rolling twelve month difference over the last year.

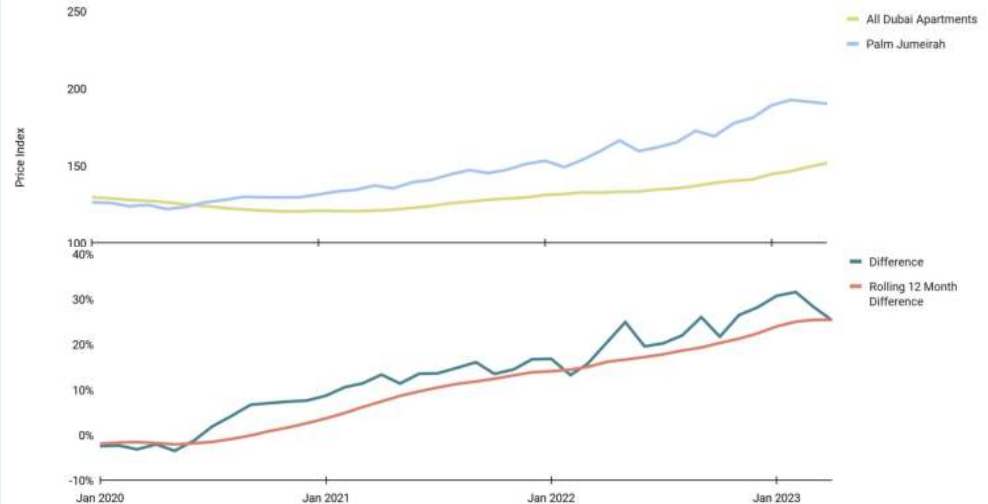
What Does This Mean?



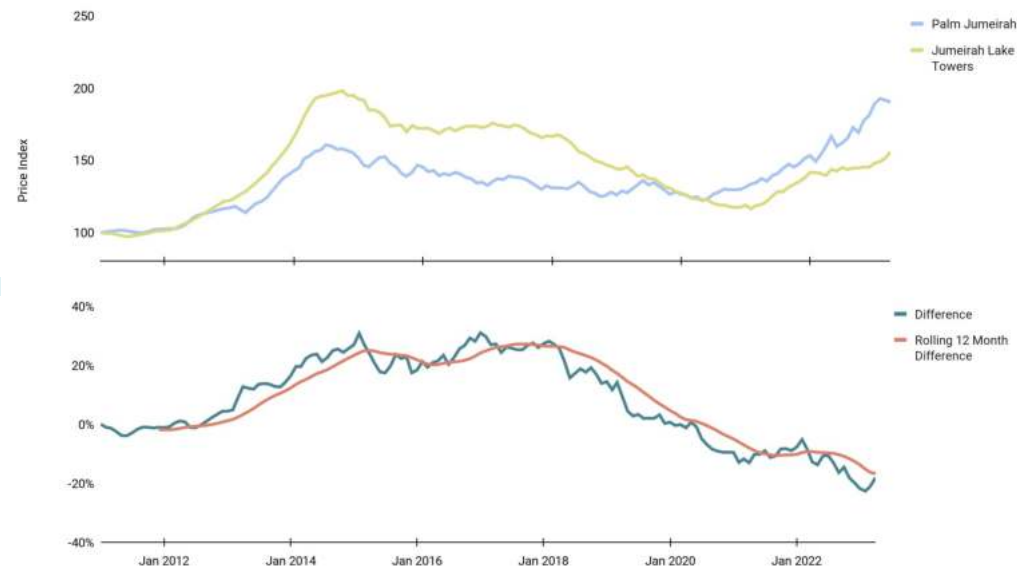
As noted earlier, the middle markets are already showing mean reversion, indicating a shift. Despite the growing gap between luxury and mid markets in the past three years, there are signs of mean reversion on both fronts. Even when comparing luxury areas like the Palm to overall Dubai apartments or specific areas like Jumeirah Lake Towers, we observe a narrowing gap. While it's a relatively short period of convergence so far, considering the lead-lag relationship with Los Angeles and London and the mean reversion in the middle markets, it is reasonable to assume that luxury's period of overperformance is ending. Going forward, it is likely that the middle markets will outperform on a relative basis.



Dubai Apartments vs Palm Jumeirah



Palm Jumeirah vs Jumeirah Lake Towers



Conclusions

- International Comparisons

Given the high degree of correlations between London, Los Angeles and Dubai, we expect there to be price moderation on a city wide basis, especially as luxury;s dominance comes to an end, relative to the mid market.

- Luxury Overperformance

Barring Palm Jumeirah, we have already seen mean reversion kick in in other markets, suggesting that Palm Jumeirah will also follow suit and the interest continues to rise in the mid market segment.

- Distinction Between Price Drivers and Transactional Volumes

The middle market has dominated ready transactions in Dubai over the last three years despite luxury markets dominating price performance. This suggests that the demand is greater for properties with a price per square foot of 1200 AED or less, which should in turn see them outperform in the coming months.





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Indigo Icon, 1708
Jumeirah Lake Towers,
P.O. Box 500231 Dubai,
United Arab Emirates
Tel. +971 4 447 7220
Fax. +971 4 447 7221
www.globalcappartners.com
info@gcp-properties.com



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Concord Tower, No. 2304
Dubai Media City,
P.O. Box 333929 Dubai,
United Arab Emirates
Tel. +971 4 277 6835
Fax. +971 4 360 4788
www.reidin.com
info@reidin.com

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purpose.”**

-HH General Sheikh Mohammed Bin Rashid Al Maktoum
The Ruler of Dubai, Prime Minister and Vice President of the UAE

