

*Luxury residential  
prices climbing*

*New supply still  
growing*

*Villa rents  
improving*

# Dubai Residential Market Review

Autumn 2021



# VALUES IMPROVE AT FASTEST PACE SINCE 2014

Residential values in Dubai grew by 2.8% in the three months to the end of September 2021, the fastest quarterly increase since 2014, pushing average prices to AED 1,046 psf. Villas (4.9%) continued to outperform apartments (2.5%) in Q3 and this is also reflected in the annual rate of change. In fact, villa values are now 16.5% higher than they were at this time last year, while apartments continue to lag, with average prices growing by a more modest 1.7% over the same period.

The relatively mute performance of apartment pricing is linked in

large part to COVID-19. The pandemic has driven a shift in attitudes amongst Middle East home buyers, as evidenced by our 2021 Knight Frank Global Buyer Survey. The need and desire to work remotely more often means buyers are looking for larger homes, with room for a home office, as well as outside space. 57% of our survey respondents in the region said they would be most likely to buy a villa, or a home in a more rural location for their next purchase, slightly higher than the rest of the world's respondents (51%) and we're already seeing evidence of this behaviour in action in the emirate.

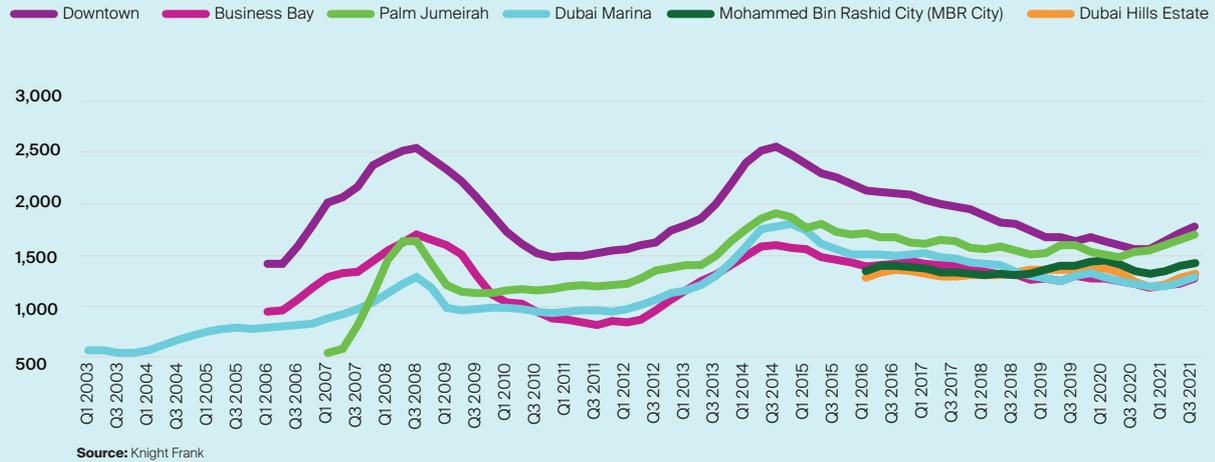


**The need and desire to work remotely more often means buyers are looking for larger homes**



### Apartments Prices

AED psf



### Villas in high demand

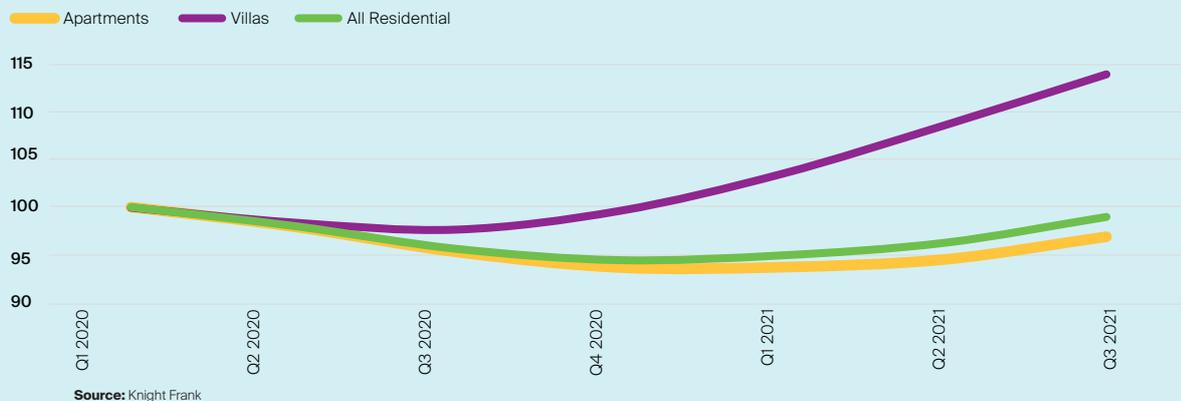
Indeed, villa values have climbed by 14% since the start of the pandemic, whereas apartment prices have retreated by 3.1%. Overall, apartments remain almost 30% cheaper than they were during the last market peak in 2014, while due to the rapid rebound in villa prices, they are now, on average, 20% less expensive when compared to 2014 highs.

This performance is however not uniform across the board, with

higher value properties experiencing a sharper rebound in values and this applies to both apartments and villas. Since the start of the pandemic, apartment prices on The Palm Jumeirah (AED 1,710 psf) and Downtown Dubai (AED 1,780 psf) have risen by 13.7% and 8.2% respectively, while other locations, such as Dubai Marina, have seen apartment values remain unchanged at about AED 1,290 psf.

### Average transacted values since the start of the pandemic

(Q1 2020 = 100)



### Palm Jumeirah prices closing in on new record highs

The same trend is echoed across the villa market, with The Palm Jumeirah (AED 2,325 psf) for instance experiencing a 16.9% rise in prices since Q1 2020. The boom in ultra-prime home sales, i.e., those priced at over USD 10 million, across Dubai is nowhere better reflected than on the Palm Jumeirah, where average transacted prices, at over AED 2,100 psf, are at their highest level in over five years. What's more, nearly half (47%) of the super prime homes sold in Dubai between January and September were on the Palm Jumeirah.

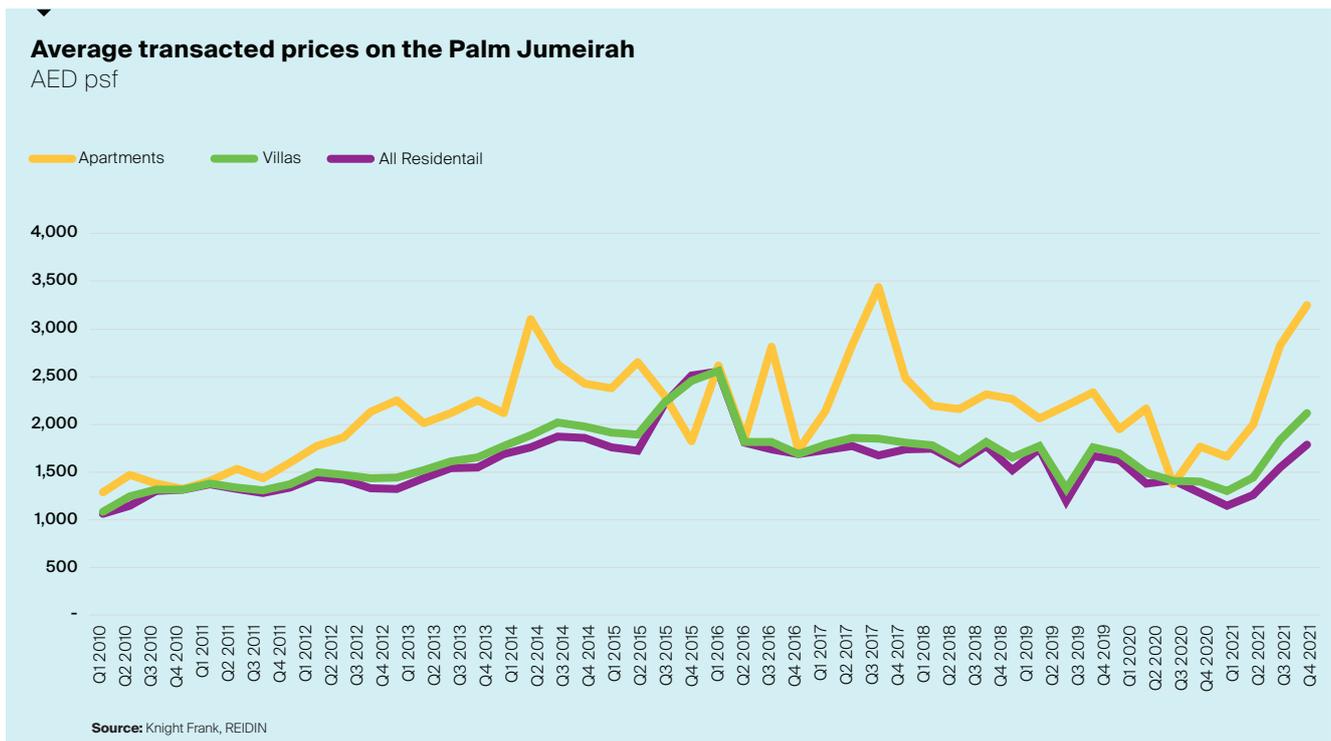
Unsurprisingly, together, the Palm Jumeirah and Emirates Hills account for almost 75% of super prime deals in the city. We do however have a new-comer to the exclusive super prime list of submarkets – Business Bay. The Dorchester Collection is going to create a new icon for Business Bay and it was only a matter of time before the 'halo-effect' from Downtown Dubai spilled over to surrounding markets, highlighting that not only is Dubai's super prime market expanding, but it is also maturing.

Villas across the city remain in high demand as both resident

expats and international investors home in the most prestigious parts of the city to secure larger and more luxurious homes. The pandemic has taught us all the importance of personal space and with a shift to hybrid working models emerging as the norm, families are seeking accommodation that delivers on space, luxury and exclusivity. This accelerating trend has driven average transacted villa prices on the Palm Jumeirah up by 40% over the last four years.

Despite accounting for a little over 2% of the total number of villa sales across Dubai, the 90 villa transactions on the Palm Jumeirah drove almost 13.5% of the AED 15.8 billion city-wide villa transactions during Q2.

The emerging community lifestyle on the island is also helping to bolster its appeal. The recent opening of Nakheel Mall has helped to cement the amenities available to the island's residents, helping to create not only an exclusive enclave, but one that epitomises the very definition of a 15-minute city – an emerging and highly desirable legacy trend of the pandemic globally.



# ISLAND LIVING IN HIGH DEMAND

**47%**

of USD 10m+ residential transactions this year have been on the Palm Jumeirah

**AED  
2,325**  
average villa prices

**AED  
1,710**  
average apartment prices

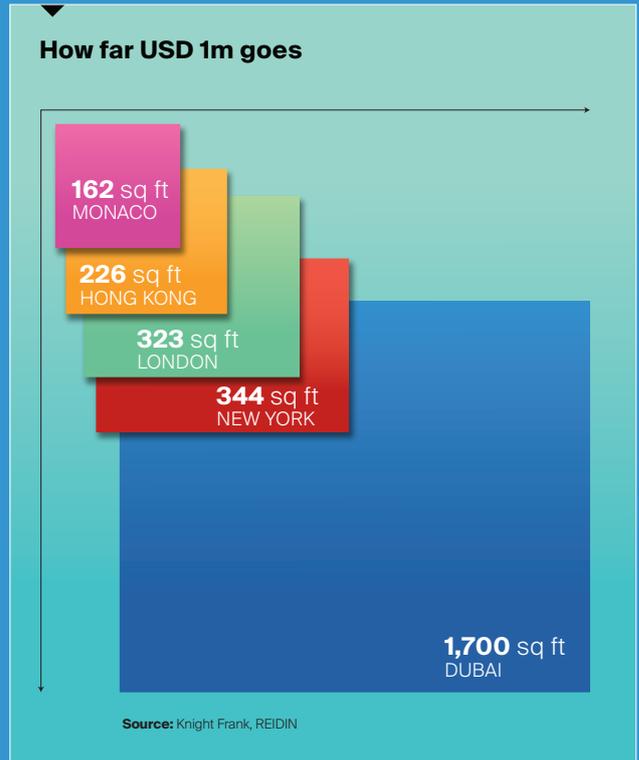
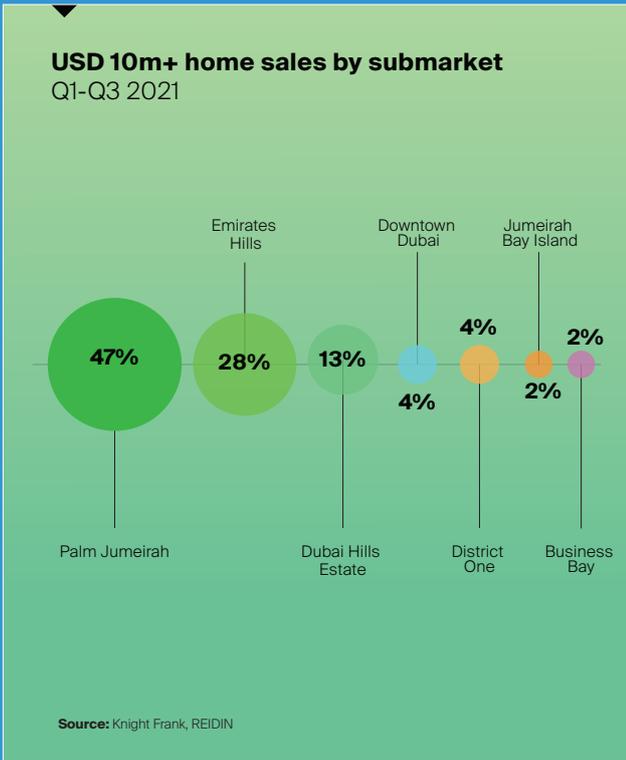
**16.9%**

increase in villa prices since the start of the pandemic

**13.7%**

increase in apartment prices since the start of the pandemic





## Ultra prime sales hit a new record

The boom in luxury home sales is best reflected in the ultra prime bracket, with January-September 2021 recording 54 sales, the highest number on record. The previous record of 31 was set in 2015. This trend has also contributed to the busiest overall September on record, with total home sales across Dubai crossing AED 12.2bn, double the previous September record of AED 6.1bn set back during the heady days of the pre-GFC ‘gold rush’ in 2009.

USD 10m+ home sales now account for 7% for all transactions in the city by value, compared to a long-term average of just 2%.



Further adding to the allure of the city is the fact that prices remain relatively affordable, when compared to other global markets.



# RESIDENTIAL MARKET DRIVERS

The surging levels of ultra-prime home sales is being fuelled by three key factors, which we unpick below.



## Vaccination leader

The UAE has earned the coveted title of being the world's most vaccinated nation, with 88% of the population having received at least two vaccination doses; 98% have received at least one dose. This has had a tremendous impact on boosting market sentiment. Indeed, the latest Purchasing Manager's Index reading for October, which tracks nation-wide business sentiment in the country's all-important non-oil sector registered it's strongest reading in over two years, lifted by the positivity percolating through the economy following the government's decisive handling of the COVID-19 pandemic and also the opening of the World Expo in October.

Unsurprisingly, this has boosted GDP forecasts, with Dubai expected to register growth of around 5.5% this year, with expansion set to reach around 5% next year, after contracting by -7.6% last year, which was the weakest growth in at least 20 years (Oxford Economics).

Job creation rates are also set to quicken, with a 3.5% rise in employment in 2021, following a 10.4% decline in 2020 (Oxford Economics).



## "Affordable" luxury

Further adding to the allure of the city is the fact that prices remain relatively affordable, when compared to other global markets, with USD 1 million for instance securing up to five times more prime residential real estate in Dubai than London, New York, or even Singapore.



## Reopening of borders

The positive economic outlook has been further catalysed by the fact that Dubai was the first city in the world to reopen its borders to international travellers last December, following a short six-week lockdown period. The impact of this decision was an influx of tourists, many of whom are ultra-high-net-worth-individuals (UHNWI) who were able to experience first-hand the way in which the spread of the pandemic was arrested in the city.

In such a sentiment-driven market, this has had unintended, but positive consequences. As outlined above, ultra-prime home sales have reached record highs, fuelled in large part by the influx of a new type of buyer: non-resident UHNWI from locations such as Monaco, Switzerland and China, who are actively seeking the city's most expensive homes. Several record-breaking deals have been registered so far this year as result of this influx of UHNWI-linked capital.

In fact, a new record was set in July with the USD 32.9 million sale of a villa on Jumeirah Bay Island to a European buyer. And prior to the sale of the Jumeirah Bay Island mansion, the most expensive home to sell in 2021 was on the Palm Jumeirah, where One100 Palm sold for over USD 30 million in March.

### Supply pipeline remains a downside risk

Countering the current upswing in values is the burgeoning supply pipeline, which remains a key downside risk to our outlook on the market.

We expect to see some 125,000 units delivered by the end of 2025, with approximately 100,000 units due before the end of next year, according to advertised completion timeframes. Should the c.78,000 homes scheduled for completion be delivered as planned, 2022 will see the highest number of new homes entering the market since 2009, when 120,000 units were delivered.

Experience however shows that inevitable delays to construction schedules will likely mean up to 30-40% of the 2022 total is likely to be pushed into 2023, or even later, perhaps aiding the nascent recovery underway to be sustained into 2022.

Zooming in further to the projected supply, our research shows that just 15 submarkets will be responsible for nearly 60% of the 125,000-unit total. What's more, villas are projected to account for just 20% of total new stock, hinting strongly at the continued outperformance of villas, relative to apartments.

That said, developers who have been waiting on the sidelines since before the pandemic and those whose ambitions were dampened by the depth of the impact of the COVID-19 induced economic slowdown appear to sense an opportunity to capitalise on the resurgence in demand for larger homes. Indeed, Nakheel for instance has already announced plans for a new villa community in Jebel Ali Village, while Emaar launched nearly 400 new villas

at Arabian Ranches III earlier in the year. DAMAC Properties too has revealed plans for Damac Lagoons, a new master-planned villa community, adjacent to DAMAC Hills.

Should this trend of large-scale villa launches persist, there is a very real risk of the villa segment of the residential market becoming over supplied, which would undermine the recovery now underway, which is largely down to excellent governance by the emirate's leadership.

### Residential tenants behaving in the same way as buyers

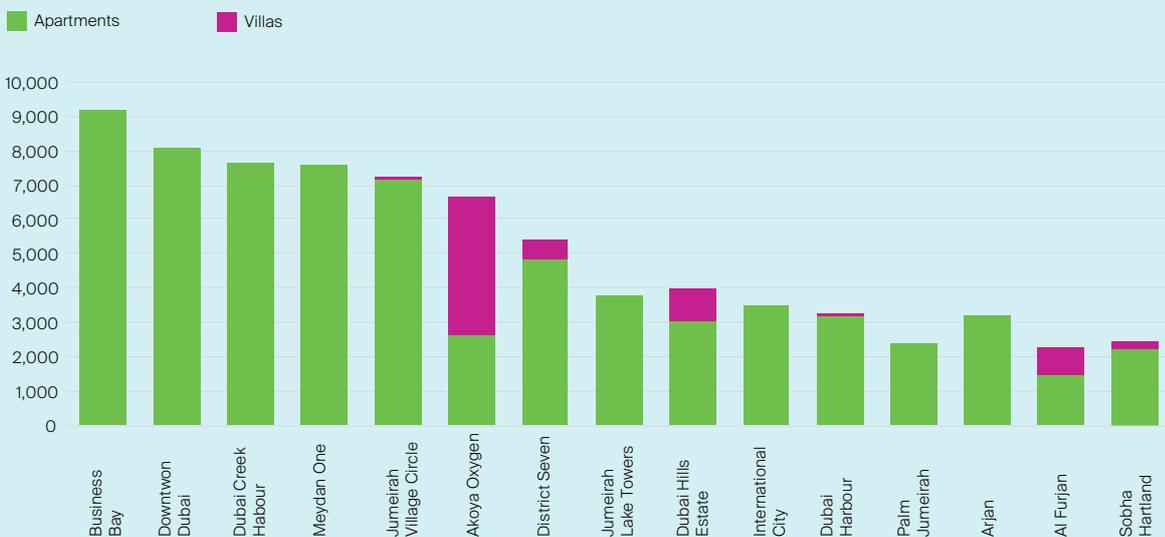
Elsewhere, residential tenants too are behaving in the same way as home buyers, opting to lease larger homes, with villas emerging as a clear favourite.

This trend has had a direct impact on the performance of lease rates, with average lease rates for villas rising by nearly 15% over the last 12-months to AED 60psf. At AED 63 psf, not only do apartments remain more expensive than villas, but average lease rates have declined by just over 5% in the year to the end of September 2021.

Examining the data further reveals that this trend has been catalysed by the onset of the pandemic, with villa rental rates growing by 9.7% since Q1 2021, while apartments have experienced a 12.3% decline in average rents over the same timeframe.

Despite the strong rebound in villa rents, they remain 25% below the last market peak in 2014, while apartments still trail, with a substantial 40% discount on 2014 rental levels.

**Top 15 submarkets for supply will deliver 60% of supply**  
number of units



Source: Knight Frank

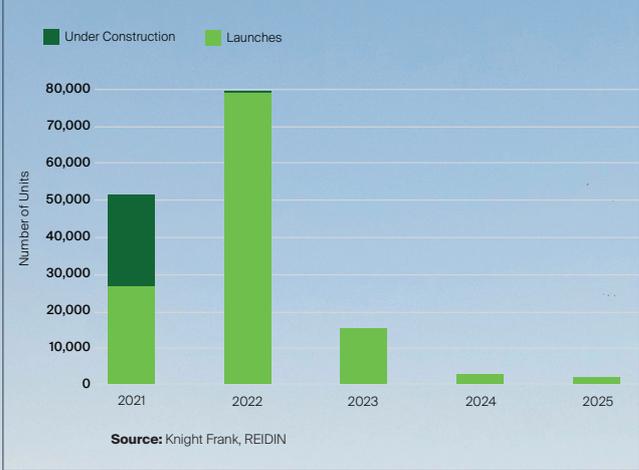
# FORECAST RESIDENTIAL SUPPLY

c.125k  
units

100k  
apartments

25k  
villas

2022 could see highest supply since 2009



# FOOD FOR THOUGHT

*ESG to shape success of future real estate projects*

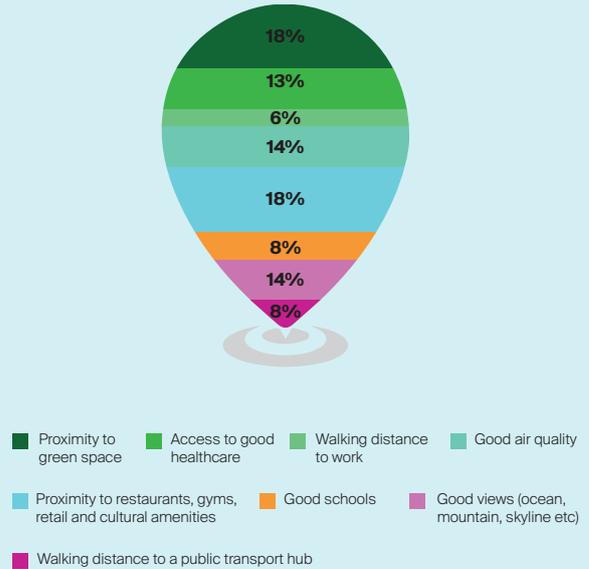
Sustainability is high up on the agenda for the region’s home buyers as evidenced by the Middle East results of our 2021 Global Buyer Survey.

Green is definitely the new black, and in the Middle East buyers are increasingly focused on all things ESG. Half of our survey respondents cited the energy efficiency of their next home being a ‘very important’ issue, compared to 42% of global buyers. Furthermore, the green agenda appears to not just be a superficial flavour of the month.

Of the eight different location criteria we asked buyers to rank for their next home, proximity to good schools and access to healthcare were unsurprisingly important; however, proximity to green space and good air quality topped the list of location features and are more important to home buyers in the Middle East than their global counterparts.

This sends a very clear and strong signal to developers and planners around the region about how important ‘being greener’ will be in driving the success of new projects. Furthermore, the Climate Change Conference (COP 26) in Glasgow will help to cement 2021 as the Year of the Green Re-awakening for real estate and the green drumbeat is only going to grow louder as investors and buyers zero in on this all-important issue.

**Importance of post-pandemic property features (% of respondents)**



Source: Knight Frank



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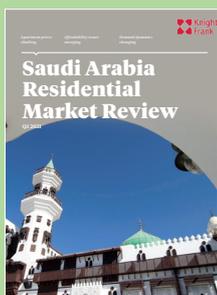
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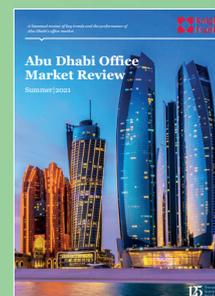
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