Dubai's COVID Comeback

The story behind the fastest residential price growth since 2015

2022

DUBAI'S COVID COMEBACK

FOREWORD

Following the spectacular Prime residential price growth in 2021, Dubai's property market looks set to experience a more "normal" year in 2022.

When the pandemic brought the world economy and property markets to a grinding halt in early 2020, little did we know that the onset of COVID-19 would be the turning point in Dubai's residential property market, kicking off a phenomenal turn-around and marking the start of the city's third residential market cycle, making the UAE's 'Year of the Fiftieth' even more memorable.

The speed of the turnaround in the city's 20-year-old freehold market has of course got pundits asking whether this is the start of yet another "bubble". A lot has changed in the last 20 years and while no two property cycles are ever the same, hard data supports our emerging view of continued pockets of price resilience.

The overriding positive undertone in the market is unlike anything I have experienced in the past and while there are clear downside risks in the form of the perennial threat of oversupply as a result of Dubai's long held 'build-it and they will come' mantra, there are many positives too:

- The 'build it and they will come' philosophy has been extended to 'build it and they will come and stay.'
- The maturing of the city's most prestigious communities is improving their desirability.
- The world-beating management of an unprecedented global pandemic by the UAE has caught the attention of global investors.
- Economic reforms are delivering real growth.
- And the seemingly relentless mobilisation of global UHNWI capital targeting Dubai's most luxurious properties does not show signs of abating.

Still, we do not derive our views from sentiment alone.

In our Dubai's COVID Comeback whitepaper, we have closely examined the performance of the city's previous property cycles and analysed transactional evidence from the last 12-months to help us better understand the likely behaviour of the current upswing in house price growth.

In particular, we focus on the prime, or luxury end of the market, which is where the largest price gains have been registered and this is also where we expect the greatest resilience and indeed, further growth over the next 12 months.

We invite you to explore our data driven insights and welcome the opportunity to discuss our analysis with you in more detail.

James Lewis
Partner - Managing Director,
Middle East & Africa

THE THIRD CYCLE

During 2021, Dubai's residential market recorded over 52,000 apartment and villa transactions, totalling AED 114.2bn, more than the total for 2019 and 2020 combined. To say 2021 was another record year for Dubai would be an understatement, particularly given the pace of property price increases.

In the 12 months to the end of 2021, average residential prices increased by 9.2%, the quickest pace of growth since Jan 2015. To a very large extent, last year's growth was heavily moderated by the performance of apartment values (7.2%), Villas on the other hand experienced average price gains of 21.2% as the pandemic fuelled the race for space. This, combined with a rush of wealthy international buyers targeting the emirate's most expensive homes has underpinned the boom in villa prices. These wealthy international purchasers represented the arrival of a new flavour of buyer in the market: non-resident, UHNWI, from locations such as Russia, India and Europe, including Monaco, attracted to the emirate by the authorities' decisive handling of the pandemic.

APARTMENTS LAGGING

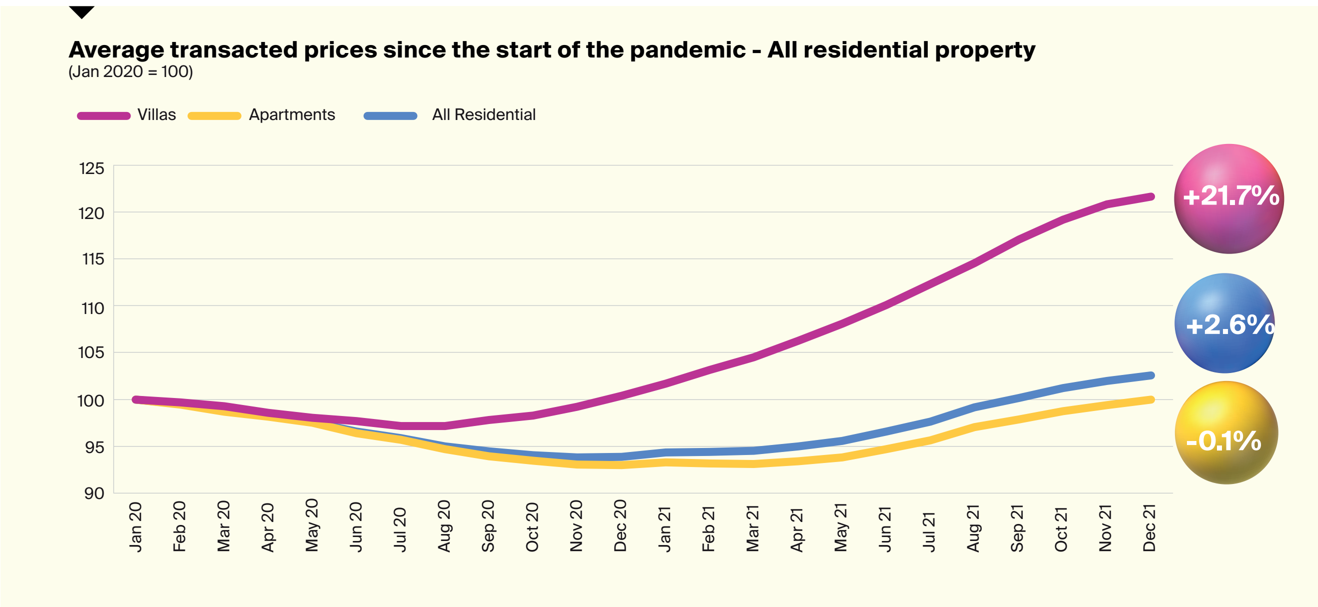
The relatively mute performance of apartment pricing is linked in large part to COVID-19. The pandemic has driven a shift in attitudes amongst home buyers. The need and desire to work remotely more often means buyers are looking for larger homes, with room for a home office, as well as outside space. Indeed, villa values have climbed by nearly 22% since the start of the pandemic, whereas apartment prices have languished, recording a marginal 0.1% drop over the same period.

Overall, apartments remain 28.3% cheaper than they were during the last market peak in Q3 2014, while due to the rapid rebound in villa prices, they are now, on average, 15.6% less expensive when compared to 2014 highs.

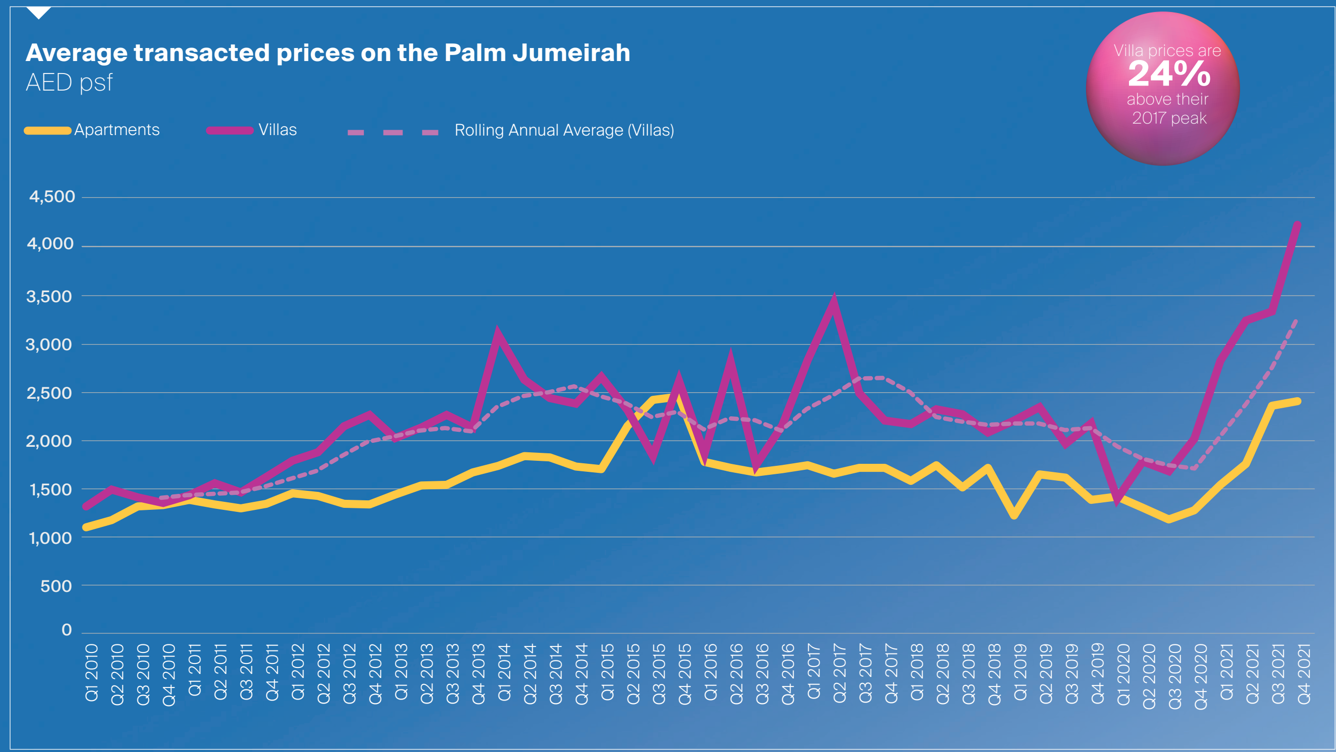
This performance is however not uniform across the board, with higher value properties experiencing a sharper rebound in values and this applies to both apartments and villas. Since the start of the pandemic, apartment prices on The Palm Jumeirah (AED 2,499 psf), for instance, have risen by 76%. Elsewhere, Downtown Dubai (AED 2,184 psf) and Dubai Marina (AED 1,642 psf) have registered more modest gains of 11.2% and 22.7% respectively.

Similarly, villas on the Palm Jumeirah (AED 4,260 psf) have more than doubled in value and are now at a record high, while Emirates Hills (AED 2,831 psf) and Jumeirah Bay Island (AED 5,650 psf) have seen villas appreciate by 36.1% and 79.6%, respectively, since the start of the pandemic – also historic highs.

Together, Emirates Hills, Jumeirah Bay Island and the Palm Jumeirah comprise Knight Frank's definition of "Prime". These three submarkets were chosen due to the high concentration of luxury property transactions that have occurred in these areas. To qualify as Prime, our definition needs a submarket to have at least 10% of its transactions over AED 10 million, for a minimum of three consecutive years.



Source: Knight Frank, REIDIN



Source: Knight Frank, REIDIN

"Villas on the Palm Jumeirah have more than doubled in value since the start of the pandemic and are now at a record high"

PRIME SALES BOOM

These three Prime submarkets have been especially active throughout the pandemic, with prices in 2021 alone climbing by close to a third on Jumeirah Bay Island and by early 60% in both Emirates Hills and The Palm Jumeirah.

Indeed, our Prime index, which we've been running since 2014 shows that on a rolling annual basis, Prime prices grew by an average of 44.4% in the 12 months to the end of September 2021. Interestingly this isn't the quickest rate of expansion; that accolade goes to Q3 2017, when prime values rose by 57.3%.

The depth of demand for homes in Dubai's Prime submarkets is best reflected in the fact that the number of Prime transactions last year accounted for 3.6% of total sales in the emirate, the highest proportion ever recorded.

ULTRA-PRIME SALES RECORD

As outlined above, the market's performance so far in its third cycle has been lopsided, with higher value properties, i.e., villas, outperforming apartments. In fact, the ultra-prime end of the property spectrum has been the real star of this cycle with US$ 10 million plus homes registering record levels of sales, fuelled by wealthy international buyers with a seemingly insatiable appetite for the most expensive homes in the emirate.

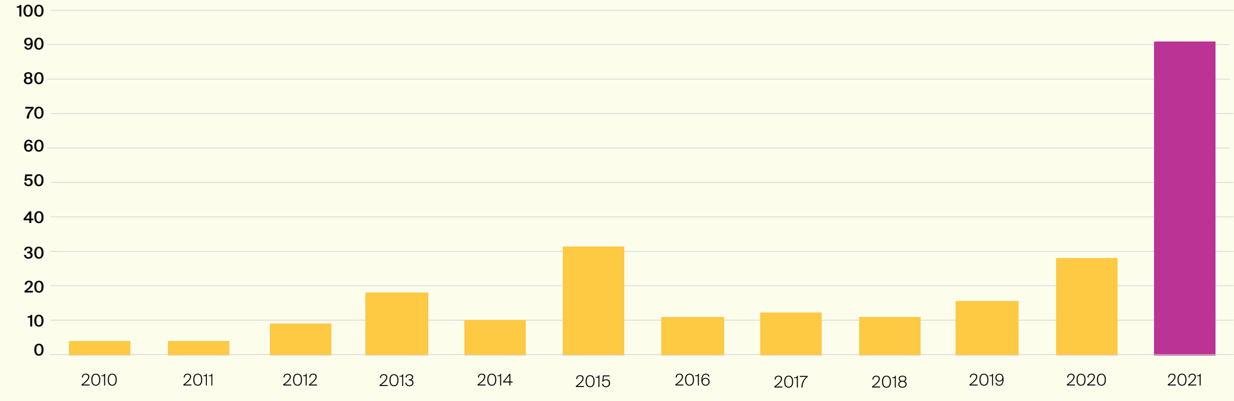
2021 registered a record 93 US$ 10 million plus home sales. The previous historic high of 31 was set in 2015.

The average deal size was US$ 14.2 million (AED 52 million) in this exclusive super-prime club; however, the average price was just US$ 1,197 psf (AED 4,393 psf), well below average prices in most other major global gateway cities.

US$ 10m+ home sales now account for 4.2% of all transactions in the city by value, double the long-term average of just 2%. 2021 now also accounts for 39% of super-prime home sales since 2010.

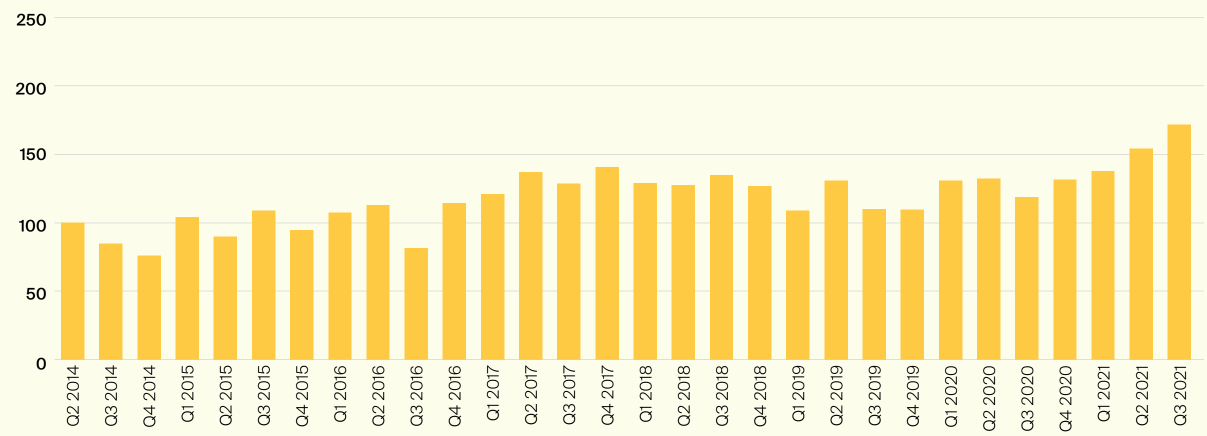
While demand for luxury homes continues to grow, the supply of homes at the top end of the market remains very limited, suggesting there is still room for growth at the prime end of the price spectrum.

Number of USD 10 million+ homes sold in Dubai



Source: Knight Frank, REIDIN

Prime residential value performance - Dubai
(Emirates Hills, The Palm Jumeirah & Jumeirah Bay Island) (Q2 2014 = 100)

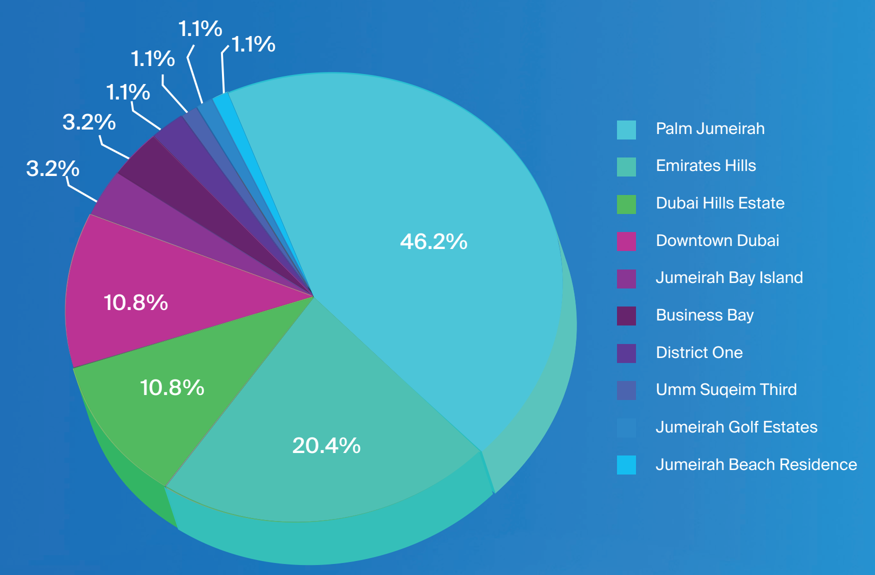


Source: Knight Frank, REIDIN

*includes both villas and apartments

> **"2021 registered a record 93 US$ 10 million plus home sales"**

US$ 10m transactions by submarket



Source: Knight Frank, REIDIN

WHAT'S DRIVING RESIDENTIAL VALUES IN DUBAI

JABS, JABS, JABS

- **Most vaccinated nation in the world**
- **Job creation rates quicken**
- **Sustained economic growth**

The UAE is the world's most vaccinated nation, with 95.1% of the population having received at least two vaccination doses; close to 100% have received at least one dose. This has had a tremendous impact on boosting market sentiment. In a sentiment-driven market, this feel-good factor has played a big part in driving buyer behaviour.

The latest Purchasing Manager's Index reading for January, which tracks nation-wide business sentiment in the all-important non-oil sector registered a reading of 54.1, buoyed by the positivity percolating through the economy following the government's decisive handling of the COVID-19 pandemic and the opening of the World Expo in October 2020.

Unsurprisingly, this has boosted GDP forecasts, with Dubai expected to register growth of around 6.2% this year, following an estimated expansion of 5.2% in 2021. The emirate's GDP shrank by -7.6% in 2020; 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 2022, following a 1.9% increase last year and a 10.4% decline in 2020 (Oxford Economics).

FLOOD OF UHNWI CAPITAL

- **Record number of US$ 10m home sales**
- **New UHNWI buyer profiles**
- **Record pricing being achieved**

In December 2020 Dubai was the world's first major city to reopen its borders, following a single six-week lockdown, sending a very strong message to international travellers and investors. The impact of this decision was an influx of tourists, many of whom were ultra-high-net-worth-individuals (UHNWI). These internationally jet-set wealthy travellers were able to experience first-hand the authorities' determination to contain the COVID-19 pandemic and the rapid journey made by the emirate to return to a normal way of life.

In such a sentiment-driven market, this has had unintended, but positive consequences. Ultra-prime home sales (> US$ 10 million) have reached record highs, fuelled in large part by the influx of a new type of buyer: non-resident UHNWI from locations such as Russia, India and Europe, including Monaco, who continue to actively seek the city's most expensive homes. Several record-breaking deals have been recorded since the start of the pandemic as result of this flood of UHNWI-linked capital.

Indeed, a new record was set last summer with the US$ 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 US$ 30 million last Spring.

Land plots too have registered record deal sizes, with a double plot on Jumeirah Bay Island selling for AED 150 million in January 2022 – the highest price on record for land on the island.

BANG FOR YOUR BUCK

- **Luxury residential still relatively affordable**
- **Shortage of ultra-prime residential stock**

For domestic purchasers, the steep increases in 2021, especially for villas, mean that values are probably approaching, or at a point where they may be classed as "just right".

However, from an international buyers' perspective, particularly those targeting the most expensive homes in the city, Dubai remains relatively cheap (up to X5 times cheaper) when compared to major global destinations such as London, New York, or Singapore, with average prime prices hovering at about AED 2,500-2,600 psf.

Developers are increasingly looking to tap into this burgeoning demand for luxury homes and a handful of small new developments, predominantly on the Palm Jumeirah, are being planned and will be priced upwards of AED 10,000 psf.

BUILD IT AND THEY WILL COME… AND STAY

- **New residency visa options**
- **Deregulation for businesses**
- **Dubai's vision being realised**

The pandemic has seen the unveiling of a raft of new economic and policy amendments both at a UAE federal level, as well as at an emirate level in Dubai, designed to shore up and boost economic activity and growth in the wake of the pandemic.

Some of the headline policy changes have included the addition of a range of new residency visas, which seek to attract and retain international talent, such as the "Digital Nomad" visa, as well as long-term "Golden Visas" for long-term residents and investors, albeit the latter was announced just before the pandemic hit.

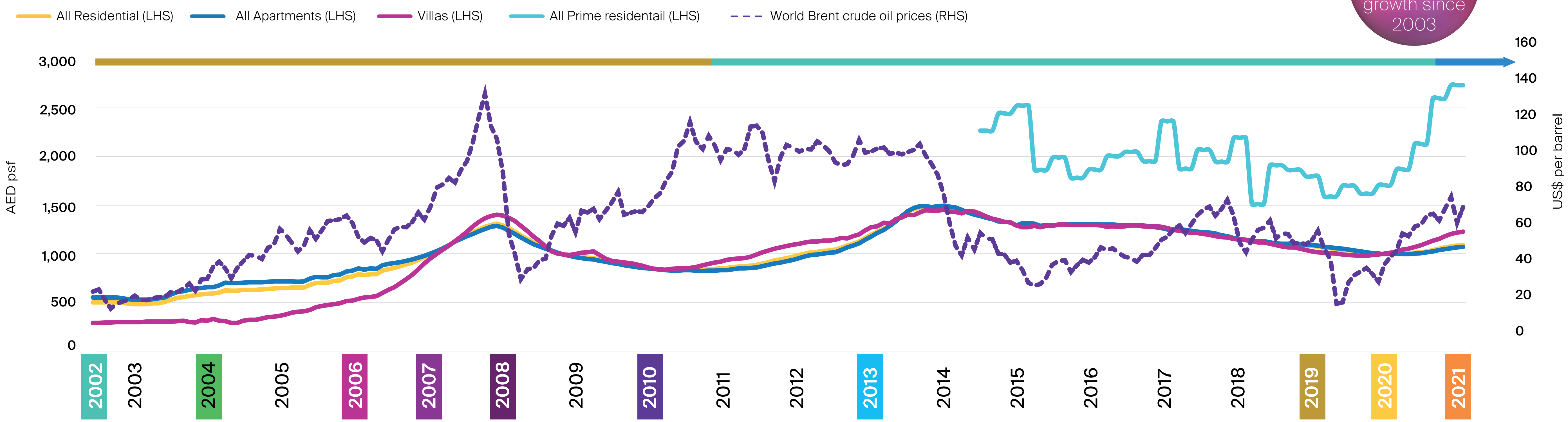
Supplementary changes such as the elimination of the need for a local Emirati sponsor for a range of business activities and the ability for businesses to be 100% foreign owned have played a big part in boosting economic positivity.

Together, these changes are helping Dubai's long held mantra of 'build and they will come' to morph into a 'build it and they will come and stay' philosophy. This subtle, but important change the demand dynamic is also contributing to the realisation of Dubai's vision as an alluring destination for talent at all levels. And this change is happening rapidly, leaving the emirate in far stronger position than many other global gateway cities, which are still grappling with the impacts of the pandemic.

UNPICKING DUBAI'S RESIDENTIAL PROPERTY CYCLES

118% House price growth since 2003

Average transacted prices - Dubai



2002
DUBAI OPENS PROPERTY MARKET TO INTERNATIONAL INVESTORS

2004
BURJ KHALIFA CONSTRUCTION BEGINS AND DOWNTOWN EMERGES

2006
MOHAMMED BIN RASHID AL MAKTOUM BECOMES RULER OF DUBAI, UAE VICE PRESIDENT AND PRIME MINISTER

2007
GLOBAL BANKING CRISIS STARTS

2008
GREAT RECESSION BEGINS FOLLOWING LEHMAN'S COLLAPSE

2010
ARAB SPRING BEGINS

2013
DUBAI WINS RIGHT TO HOST WORLD EXPO 2020

2019
UAE GOLDEN VISA LAUNCHED

2020
UAE ENDS FOREIGN SPONSORSHIP REQUIREMENTS FOR BUSINESSES

2021
DUBAI EXPO 2020 BEGINS

Source: Knight Frank, REIDIN, various sources

Name of cycle	EMERGENT "GOLD RUSH" (2003-2010)	THE X(PO) FACTOR (2011-2020)	THE COVID COMEBACK (2020-DATE)
Values at cycle start (AED psf)	500	832	998
Duration (years)	8.1	9.8	1.1+
Period of increasing values (years)	5.7	3.8	1.1+
Cycle high (AED psf)	1,309	1,487	1,090
% increase from start	+162%	+78.8%	+9.2%
Period of decreasing values (years)	2.4	6.1	n/a
Cycle low (AED psf)	831	997	n/a
% change from start to finish	+66%	+19.8%	n/a
Peak to peak % change	n/a	+13.6%	n/a
Peak to trough % change	-57.5%	-49.1%	n/a

DUBAI'S COVID COMEBACK

ARE WE IN THE MIDST OF A PROPERTY BUBBLE?

You would be forgiven if you thought the market was in the midst of a "bubble" given the extraordinary price rises in certain segments of Dubai's residential market. And indeed, there are very early signs to suggest that 2021 may end up marking the peak of Dubai's third property cycle. While values are still creeping up, anecdotal evidence points to an emerging delta between seller and buyer expectations in some premium locations, a classic sign that a rising market may soon plateau.

Dubai's freehold residential property market is relatively young and with just two full cycles behind us, it is challenging to formally predict the longevity and indeed the sustainability of the current levels of effervescent deal activity. What we can however do is take a 'cold-towel' look at six key facts to help give us a steer on the likely behaviour of values in this third property market cycle, The COVID Comeback:

1. TRANSACTION VOLUMES

As noted above, some property types, in a few locations appear to be approaching a price ceiling. This is evidenced by the fact that while there are still plenty of buyers transacting rapidly, in certain areas, buyers are pausing to ask the question: Is this still good value? While there is no black and white response to that question as 'good value' is a relative term, what we do know is that October, November, and December 2021 were all record months for deal activity, but with the exception of November, each registered slightly lower transaction totals than the preceding month.

2.BIGGER IS BETTER

Clearly marginal declines in transaction volumes on their own are not necessarily indicative of a cooling market. Zooming in further to the volume of transactions by property type shows that Prime villas overall have continued to register higher deal numbers than apartments throughout 2021, in fact peaking in Q4, with the exception of the Palm Jumeirah, where 19 fewer homes sold in Q4, when compared to Q3 2021.

This trend is mirrored across the entire villa market, with Q4 registering a 29% increase in the number of villas sold in the city, suggesting the 'race for space' is far from over one year into the emirate's third property cycle.

4. BUT CAN PRICES RISE INDEFINITELY?

The short answer is probably not. Evidence already suggests that the 20% villa price growth of 2021 is starting to slow and there are good reasons for this. Affordability and the memory of previous extreme volatility in the emirate's market will certainly play a big part in dampening the enthusiasm to enter the market at a point perceived to be a peak.

However, we are only over a year into this third cycle and overall prices are still 26.6% below the last market high. Furthermore, previous cycles have lasted almost a decade. It is likely that values will begin stagnating, rather than falling, while buyers adjust to new price levels. Indeed, the city's second cycle experienced a similar level of price stagnation between December 2015 – August 2017, albeit this current cycle may be somewhat compressed, given the pace of price recovery, particularly for villas.

5. ENAMOURED INTERNATIONAL BUYERS

So, what about the international buyers who have been soaking up the emirate's most luxurious and most expensive homes?

For international buyers and investors, Dubai remains relatively more affordable, particularly properties at the prime, or ultra-prime end of the market and this seemingly insatiable demand for the city's most expensive homes amongst the international wealthy is expected to continue intensifying as Dubai rides out the pandemic, arguably better than any other city globally. The outlook for properties over US$ 10 million therefore remains bullish.

Source: Knight Frank, REIDIN

3.OVERSUPPLY THREAT?

This prolonged upswing in demand for villa properties also tends to suggest that villas are likely to continue experiencing price growth, perhaps outpacing apartments. But what about Dubai's famously overzealous supply pipeline? This remains a key downside risk to our outlook on the market. The period between 2022 and 2025 is likely to see just over 97,000 units being delivered; and nearly 74,000 this year alone, which would translate into the highest number of new home completions 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. Zooming in further to the projected supply, our analysis shows that villas are projected to account for just 15% of total new stock, hinting strongly at the continued outperformance of villas, relative to apartments. When it comes to new stock in Prime Dubai areas, new units are only expected on The Palm Jumeirah in 2022. These 2,700 units represent just 3.6% of the city's 2022 total.

However, it is worth noting that for the Prime end of the market, mortgaged deals tend to be very limited. Indeed, on the Palm Jumeirah there were c.600 mortgaged transactions during 2021, representing less than 3% of Dubai's mortgage market. It is worth noting that many UHNWI tend to initially make a cash purchase, before seeking alternative refinancing arrangements.

6. CASH BUYERS

2020 (47.7%) was the second strongest year for the proportion of mortgaged deals v cash purchases in Dubai, after 2007 (50.3%). In 2021 this proportion fell to 40.4% and for the first six weeks of 2022, initial estimates put the figure at 22.3%, which would be the second lowest proportion on record after 2010 (21.3%).

With the upward creep of the headline base rate by the US Federal Reserve System (Fed) (The UAE has historically mirrored US fiscal policy due to the fixed peg it maintains with the US dollar) being a question of when, not if, the risk of increased costs to mortgaged buyers is clearly very real given that headline inflation levels breached 7% in the US at the end of 2021, strongly suggesting multiple rate rises in 2022 are almost a given.

However, the apparent decline in the proportion of mortgaged buyers may hint toward the receding of a significant threat to the residential market's stability. Undoubtedly, substantive increases to the headline base rate in 2022 will raise the spectre of this threat significantly.

THE BOTTOM LINE

Price growth is likely to slow this year, there's no two ways about it. The Prime and super-prime end of the market will likely outperform as luxury/uber luxury supply remains negligible, although some developers such as Alpago Properties, are cottoning on to the dearth of luxury homes, albeit the planned supply so far at the higher echelons of the market seems low compared to the appetite amongst the international UHNWI contingent.

DUBAI'S COVID COMEBACK

THROUGH THE LOOKING GLASS

Finding comparable global residential markets to Dubai is challenging for several reasons, not least because no two markets are ever alike. However, since the transfer of sovereignty in 1997, Hong Kong's vibrant residential market has also experienced 2.5 distinct price cycles. Furthermore, its relatively similar 'boom and bust' cycles offer the chance to draw some parallels.

THE VIEW FROM HONG KONG

by Martin Wong, Head of Head of Research & Consultancy, Greater China

Hong Kong's first post-British handover cycle lasted almost 12 years and saw house prices ending the cycle almost 60% lower than the start, although at one point in 2003, values had receded by nearer 75% as the SARS outbreak and the Asian Financial Market eroded investor interest and confidence.

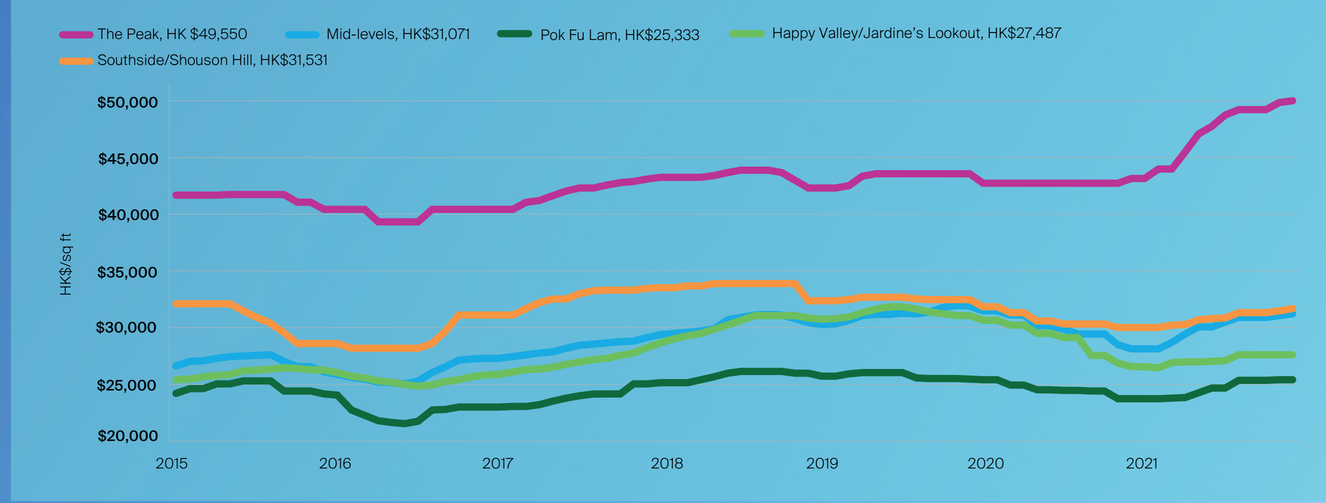
The second cycle lasted just over 13 years, but this time, residential values surged by over 4.5 times, before a brief retreat during 2016 when turbulence in the Chinese stock market and intensified scrutiny of wealthy individuals from Chinese mainland cooled the market by -3.6%. In contrast, 2017 saw prices rapidly recover by close to 17%, driven in large part by the resilient local end-user demand despite cooling measures introduced by the government.

In a similar fashion to Dubai and indeed many other major global gateway cities, the onset of the pandemic has given buyers and homeowners cause to reassess their living arrangements, with many, particularly HNWI and UHNWI actively targeting the most luxurious properties in Hong Kong. Over the last 12-months alone, The Peak, one of Hong Kong's most exclusive areas, has registered a price increase of almost 16%, far outpacing other luxury locations in the city.

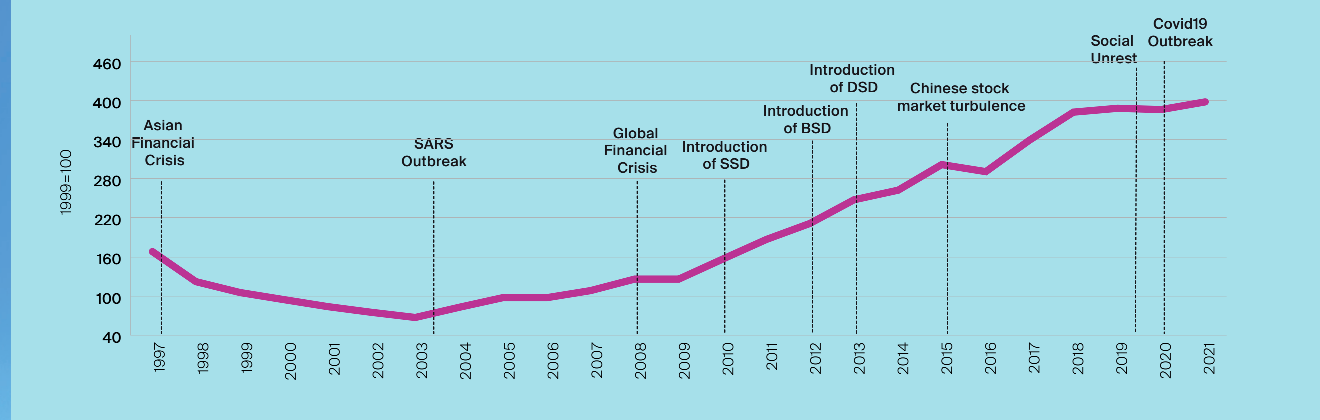
Given the limited supply of unique and exclusive luxury properties, wealthy locals and the Chinese mainlanders continued to show strong demand for premium residential properties. It is expected the demand for luxury homes will further go up once the border reopens between Hong Kong and the Chinese mainland.

Since the low interest rate environment in Hong Kong is expected to remain until at least 2023 when the US may start lifting interest rates, Hong Kong may not necessarily follow suit when the US interest rate hikes start - we have seen similar cases in recent years. The low interest rate environment will continue to be a key driver encouraging both prospective buyers to climb the property ladder, and investors looking for capital appreciation to acquire assets, prolonging the current cycle.

Hong Kong luxury residential price trends (by district)



Hong Kong residential price index



Source: Knight Frank

"The relatively prolonged period of stability in residential values in Hong Kong since 2018 hints perhaps at what Dubai can expect after the record growth in 2021, especially given that both markets have been buoyed by a relentless surge in luxury residential sales since the onset of the pandemic"

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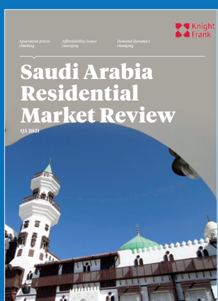

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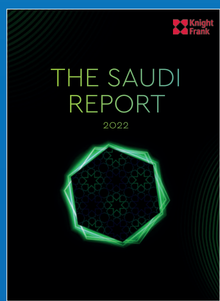

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