CUSHMAN & WAKEFIELD | CORE

GLOBAL COMPARISONS

2018

Global Comparisons – around the world in prices and yields

Despite the popular global assumption that the majority of Dubai's real estate stock and transaction volumes are concentrated in the prime/luxury end of the market, this sector represents just a small portion of the emirate's residential market. In fact, only 3% of all residential transactions in 2017 were concluded within this segment.

This may come as a surprise given Dubai's image as an expensive metropolis with a robust luxury property market; but it is less paradoxical when one considers the large amount of stock that has transacted in the mid- and affordable segments over the past 12 months, overshadowing the prime market that just a few years ago was firmly in the limelight.

In any anomaly one may find opportunity, however, as the market continues to be flooded with new stock in the lower end, the top segment may provide better prospects for investors in the coming few years.

Prime and ultra-prime property prices in Dubai are now amongst the lowest of any comparable global hub. This stance is further intensified by the varied level of price softening witnessed over the last three years across all segments of the market, prime properties in Dubai are approximately 40% less expensive than Singapore and 50% less than Moscow and Paris. Dubai's ultra-prime market is also relatively inexpensive, with average prices almost 60–70% lower compared to cities such as Shanghai and Tokyo.

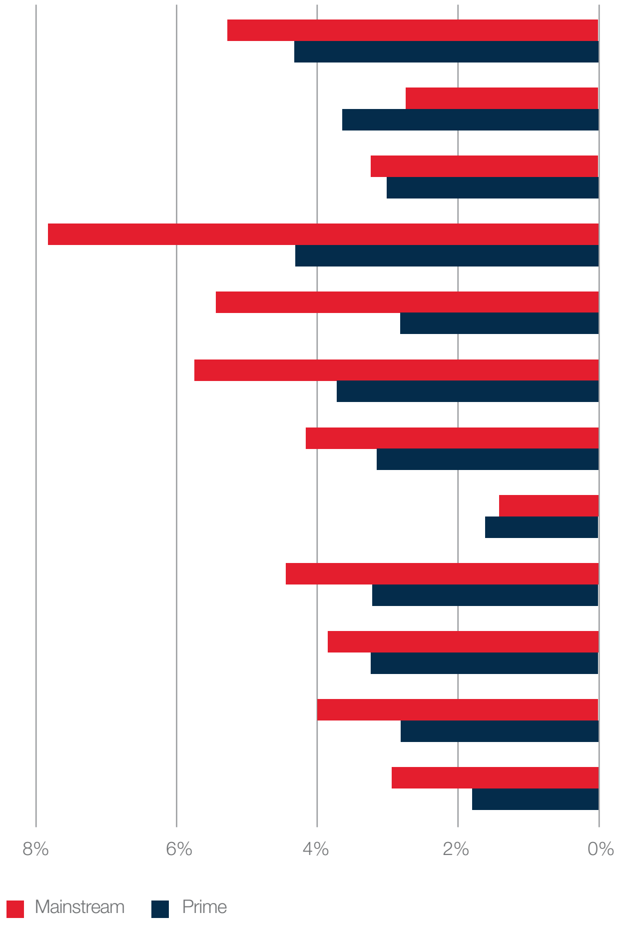
The long-term investment potential in Dubai's prime segment is reinforced by a nominal tax regime and notably low real estate investment costs. These costs – associated with buying, holding and selling property – can detract significantly from an investment and essentially erode the attractiveness of an asset. Cities such as Hong Kong carry investment costs of approximately 32%, while costs in Singapore and Tokyo are nearly 20%, representing an additional charge equivalent to almost a quarter of the value just to buy, sell or hold property. With notably low buying and selling fees, and almost no holding charges, investment costs in Dubai amount to just 8%. Although these costs are often overlooked by investors, they have a significant impact on any comparison of prospective investment yields in different cities across the world.

The trickle-down effects of continued low oil prices, a strong US dollar and continued geo-political uncertainty have collectively cast a significant dent in the absorption levels in prime stock. However, the upcoming supply pipeline is modest in this sector, with most new stock concentrated in the low-to-mid market segment – an upsurge created on the back of projected demand from Expo 2020. Given Dubai's position as a global tourist destination and regional economic hub within five hours flying time to around one third of the world's population, strong underlying demand for prime and ultra-prime properties is expected to be sustained in the long run.

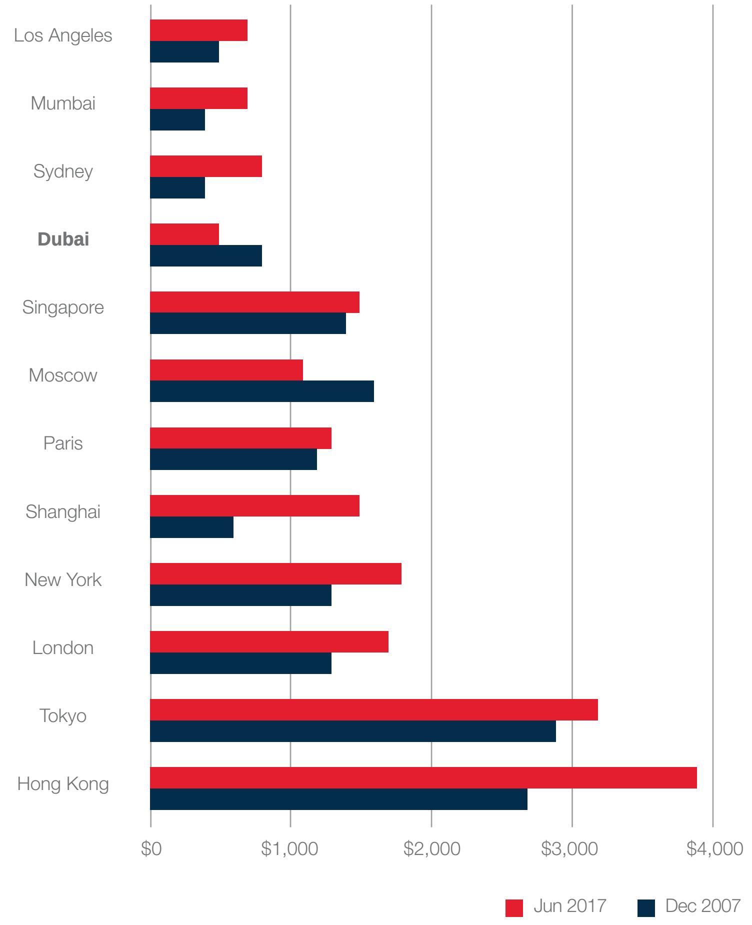
As the market grows and continues maturing, adding depth and liquidity on the back of population growth, the demographic pressure is also likely to continue moulding the cityscape in a way that will make core areas even more obvious and unavoidable. These "city centers", muolded by demographics rather than just master planning, will also see natural price appreciation driven by desirability, and the scarcity of land surrounding them - a novelty in Dubai.

Prime and ultra-prime will be the direct beneficiary of this phenomena, in terms of price appreciation and stability, although this will in all likeliness trigger further yield compression, making Dubai on par with other global hubs. On the other end of the spectrum, in most outer areas seeing no constraint on land availability, and being flooded by recent lower priced projects, even optimistic demographic figures will unlikely be sufficient to drive significant mid-term price appreciation, creating a widening gap and contrast with prime and ultra prime prices in the center.

Residential Yields in World Cities

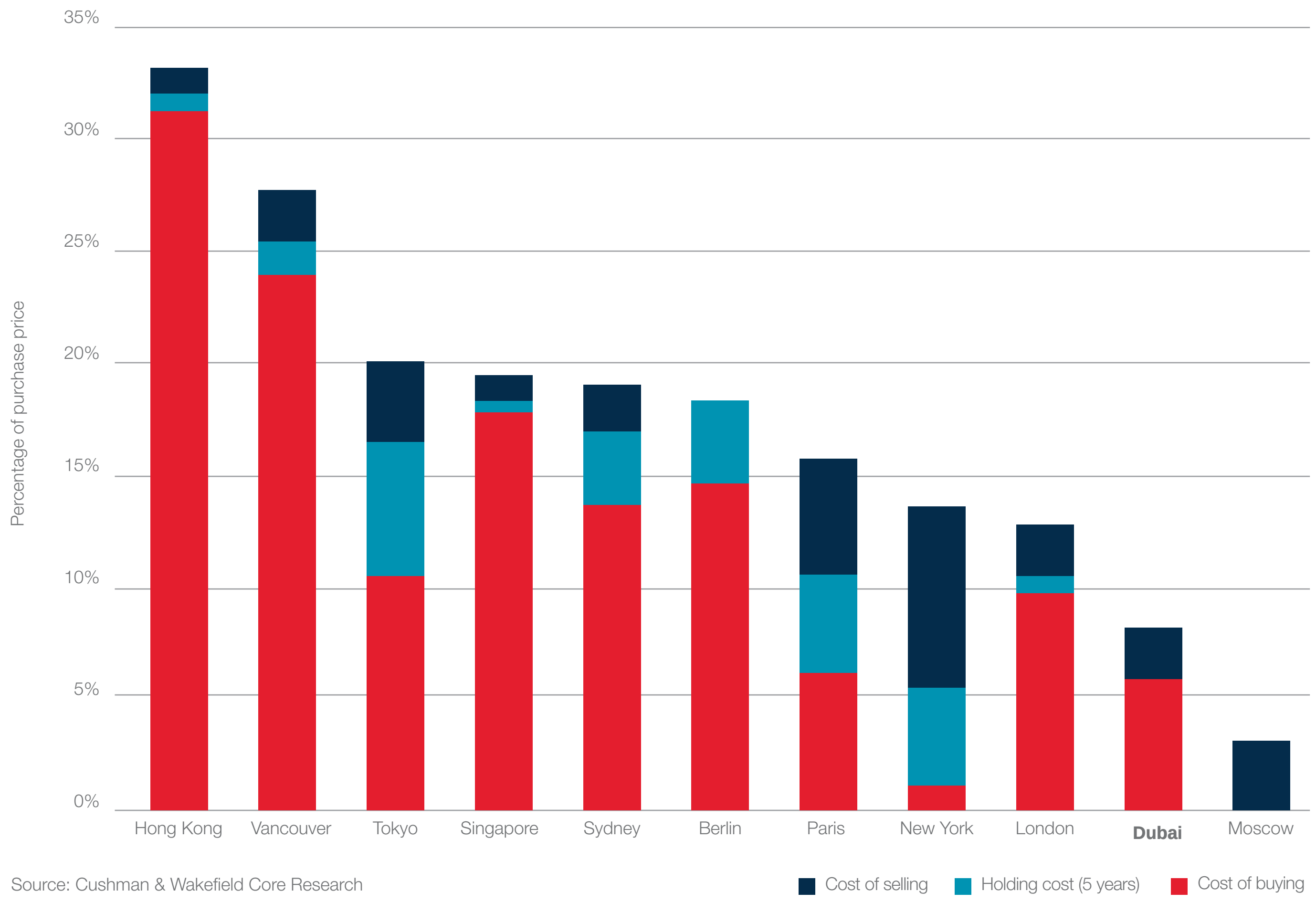


Prime League - 10 year change in prices



Source: Cushman & Wakefield Core Research

Buying, holding and selling costs in world cities



Source: Cushman & Wakefield Core Research

Note: Scenario assumes a $2 million property (or equivalent), foreign buyer holding for five years as an individual, not as main residence. Any capital gains are not included.

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What does 1 million USD buy?

Despite Dubai's image as an expensive metropolis with an abundant supply of luxury properties, the prices of prime and ultra prime properties in the city are currently the lowest compared to other global hubs. Prime properties in Dubai are approximately 40% less expensive than Singapore and 50% less expensive than Moscow and Paris. Dubai's ultra-prime market also is comparably inexpensive compared to prominent global cities such as Shanghai and Tokyo with average prices almost 60%-70% lower.

As the market grows and matures, prime and ultra-prime sectors are likely to offer significant investment opportunities to developers and investors. It is interesting to note, that the ultra-prime market is less established in Dubai relative to the prime sector. For example, you can buy almost thrice the area for a prime property in Dubai, while in the ultra-prime sector, properties 4-5.5 times bigger can be acquired when compared to similar spatial benchmarks in New York or London.

This indicates that Dubai has reached a relatively stronger position in the prime market on the global scene, whilst it still has significant potential to grow in the ultra-prime segment. It is likely to see continued investment inflows from global and regional investors, causing prices to stabilise - marginally contracting the gap in capital values with other global cities and witness gradual yield compression over the long term.

Square meter 1 million USD can buy (Prime)

Square meter 1 million USD can buy (Ultra Prime)

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