

STRICTLY CONFIDENTIAL



## Dubai's Adventures in Off-Plan

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# Executive Summary

- Recently discussions of off-plan transactional activity was one of 'gestimations' between brokers and the analyst community. However, recent data released has helped decipher the holistic movement of transactional activity in Dubai real estate market. Over the last two years, 'off-plan' sales accounted for 50% of the entire transactional activity. The data highlights that peaks in off plan transactions occur in troughs of ready made transactions, implying a monetary shift from one to the other. Historical analysis only accounted for the ready market transactions, which was excluding half of the overall market, a fact that we have highlighted in earlier publications.
- A segmentation analysis of both the 'ready' and 'off-plan' market reveals that the ratio of sales between vertical and horizontal living remains constant. However, in the off plan market, in 2016, there has been an even greater shift towards the apartment space, indicating investor preference for lower ticket items, i.e. affordable housing. In addition, a geographical analysis reveals the ready market is dominated by developments in Sheik Zayed corridor, whereas the off plan space has been skewed towards the rapidly developing Muhammad bin Zayed area. As these communities move towards completion, there will be a tilt towards end user preferences towards this part of Dubai, which is where the bulk of affordable housing supply is coming.
- There is a startling difference between the 'sales' and 'mortgage' transactions in the off-plan and ready market. The former is dominated predominantly by investors and has an overwhelming propensity of cash based transactions. In this space, transactions will remain predominantly skewed towards cash, (in many cases leverage being offered by developers), making it more volatile in terms of price action. Whereas in the ready space there has been a steady increase in mortgage based transactions, implying that a higher rate of home-ownership is transpiring
- Historically, analysis on transactions was only conducted for ready transactions, leaving out the crucial off plan segment, which accounts for half of overall transactional activity. Further analysis needs to be conducted to distil price and community activity in order to ascertain emerging buying patterns.



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## A Holistic View on Transactional Activity



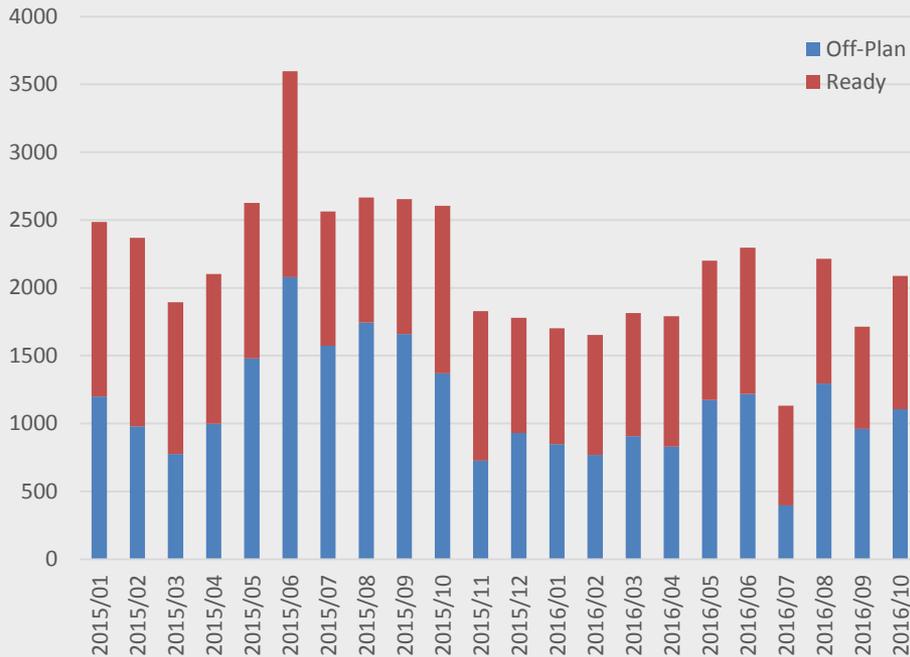
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“Not everything that can be counted counts, and not everything that counts can be counted”  
Albert Einstein

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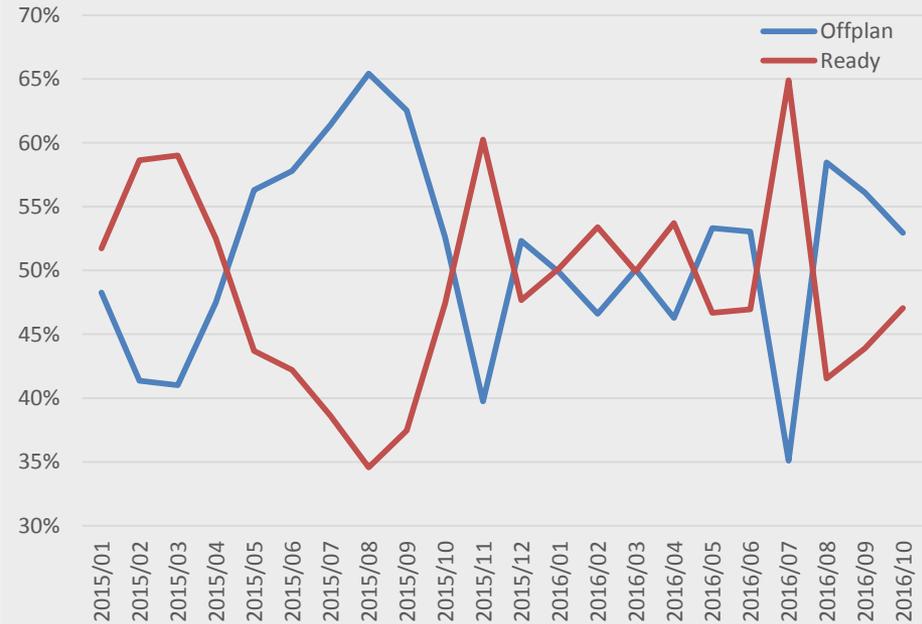
# A look at the Market Share of Transactional Activity: Ready Vs Off-Plan

**Dubai: Transactional Activity (Jan 2015 – Oct 2016)**



Source: REIDIN

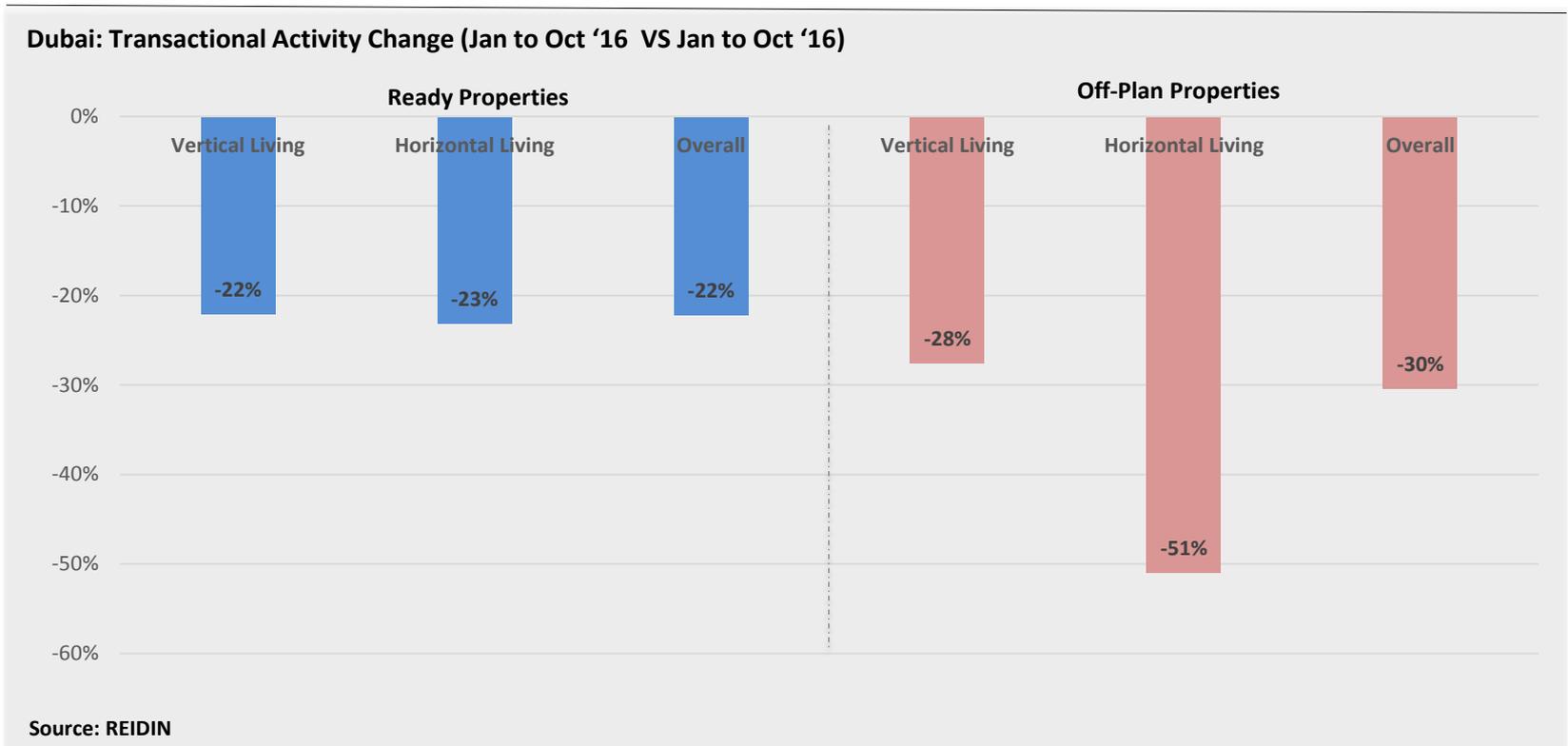
**Dubai: Transactional Activity by market share (Jan 2015 – Oct 2016)**



Source: REIDIN

The above graph illustrates a holistic overview of the transactional activity in the Dubai real estate market. The two main types of options available for buyers and sellers is in either the 'ready' or 'off-plan' space. Over the last two years both types off-activity have individually accounted for half of the overall transactions. The data highlights that off plan broadly accounts for half of the overall transactions, and peaks in off plan transactions occur in troughs of ready made transactions, implying a monetary shift from one to the other. Historical analysis only accounted for the ready market transactions, which was excluding half of the overall market, a fact that we have highlighted in earlier publications.

# Changes in Transactional Activity



Given the fact that the off plan market has been more dominated by “hot money” flows, and the fact that there has been a transition in the ready market towards an end user base, it is of no surprise that off plan transactions have fallen by a greater percentage than the ready market.

## Segmentation and Locational Analysis of Transactional Activity

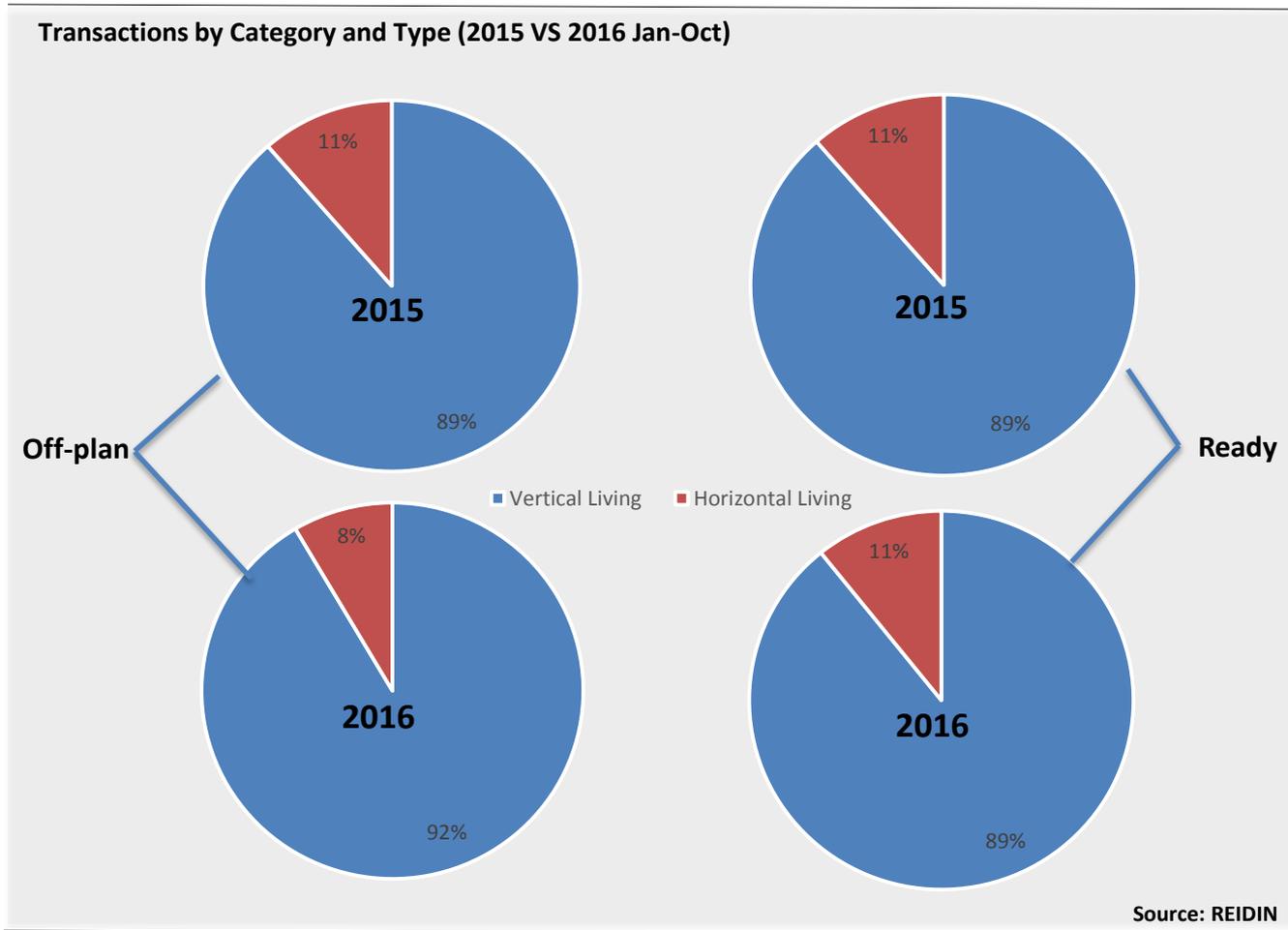


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“He uses statistics as a drunken man uses lamp posts – for support rather than for illumination”  
Andrew Lang

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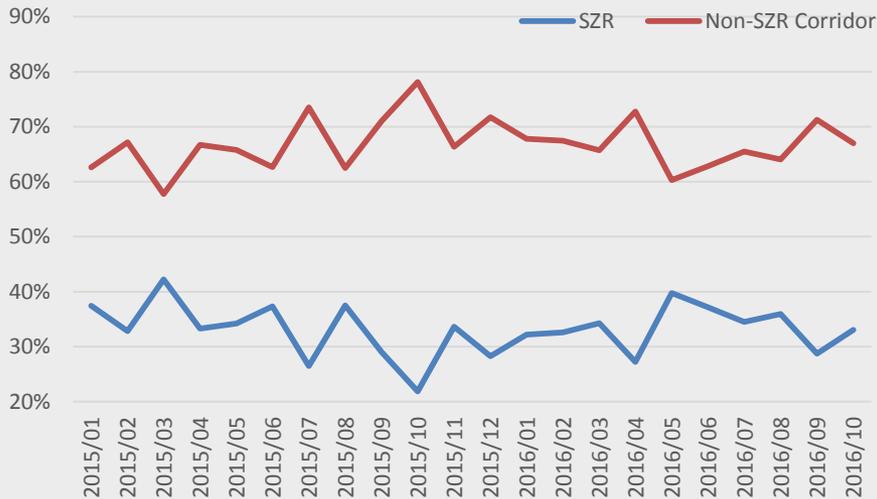
# A look at Transactional Activity by Category: Ready Vs Off-Plan



In both markets, the 'off-plan' and 'ready', the ratio of sales between vertical and horizontal living remain constant. For every one villa there have been nine apartments sold. However, in the off plan market, in 2016, there has been an even greater shift towards the apartment space, indicating investor preference for lower ticket items, a la affordable housing.

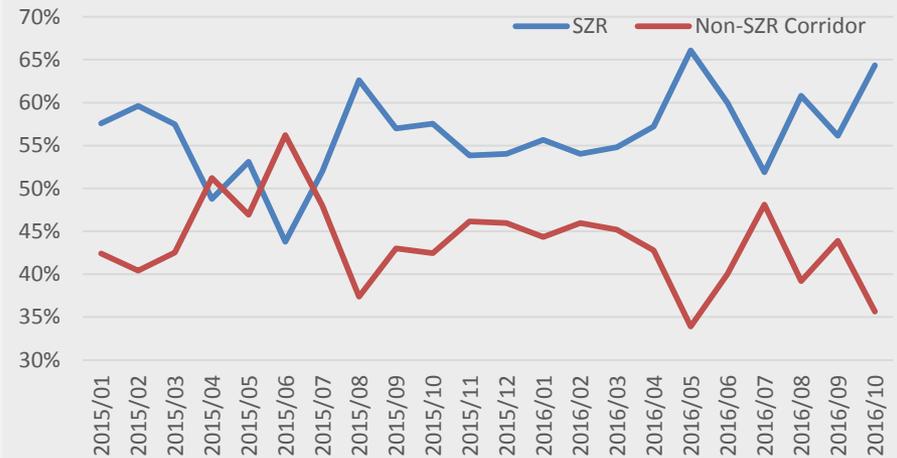
## A look at Transactional Activity by Location: Ready Vs Off-Plan

Off-Plan Transactions by Location (Jan 2015 – Dec 2015)



Source: REIDIN

Ready Transactions by Location (Jan 2015 – Dec 2015)



Source: REIDIN

There is a diametrically opposite geographical trend that has emerged between the ready and off plan market in terms of area. Whilst the ready market is dominated by developments in SZ corridor, the off plan space has been skewed towards the rapidly developing MBZ area, implying that as these communities move towards completion, there will be a tilt towards end user preferences towards this part of Dubai as well. The MBZ area is where the bulk of the affordable developments have been concentrated on, explaining the tilt towards that part of Dubai in terms of investor preferences.

## Sales and Mortgages in Transactional Activity: Off-Plan Vs Ready

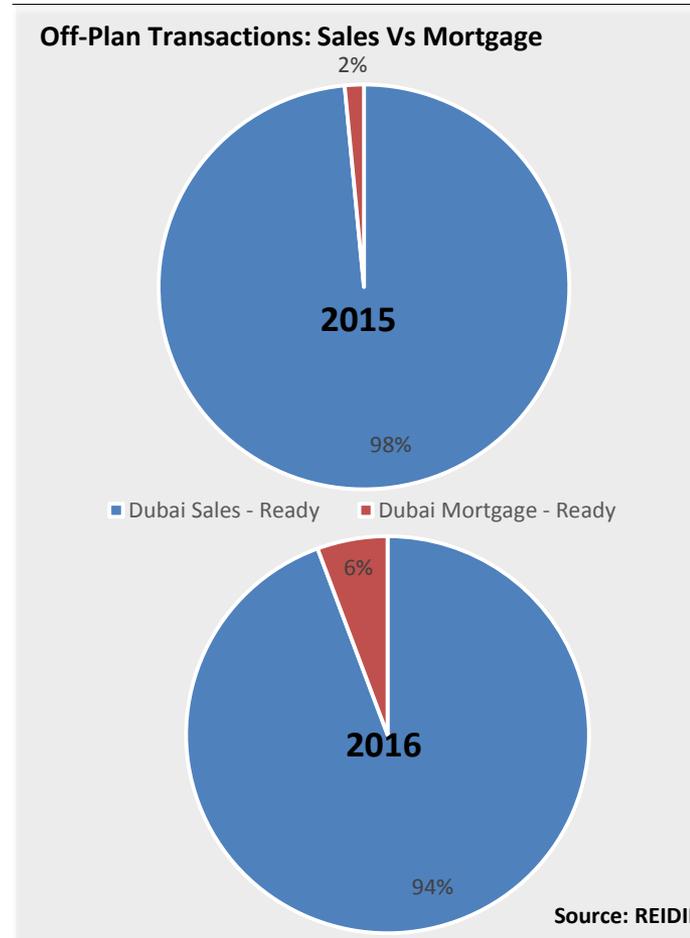
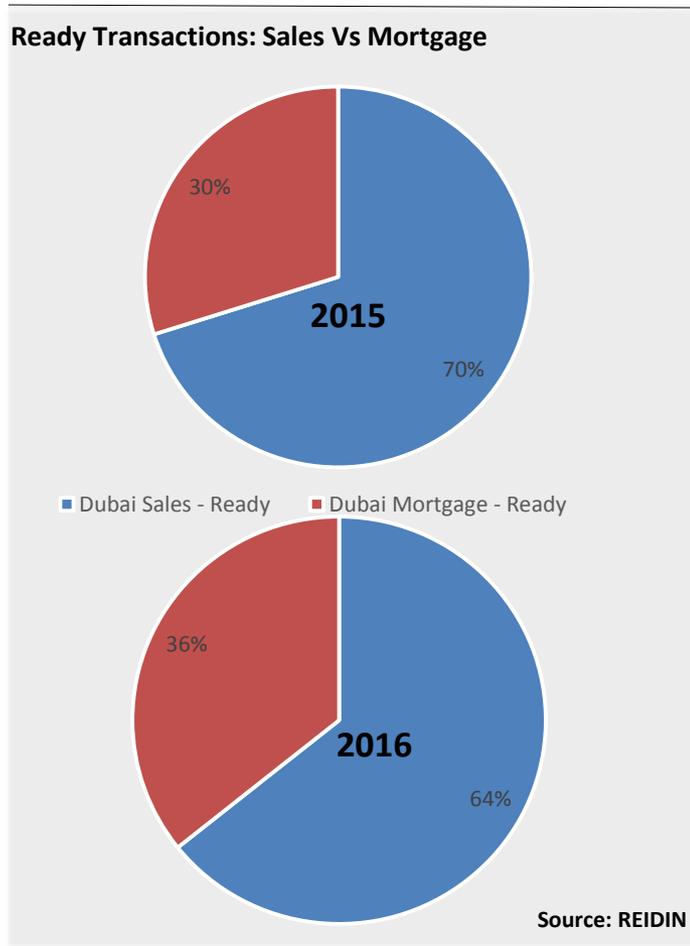


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Once we know something, we find it hard to imagine what it was like not to know it.  
Chip & Dan Heath

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## Sales and Mortgages in Transactional Activity: Off-Plan Vs Ready



The differential in mortgage rates between the ready and off plan space is perhaps the most startling indicator of the weightage between investors and end users. In the off plan space (dominated predominantly by investors), the overwhelming propensity of transactions is cash based (a statement that was true for the ready market in 2010 as well). We see that in the ready space, mortgage based transactions continue to show a steady increase, and we opine that this will cross 50% in the next 2 years. In the off plan space, transactions will remain predominantly skewed towards cash, (in many cases leverage being offered by developers), making the latter more volatile in terms of price action.

# Conclusions

*Over the last two years, 'off-plan' sales accounted for 50% of the entire transactional activity*

*Historical analysis only accounted for the ready market transactions, which was excluding half of the overall market, a fact that we have highlighted in earlier publications.*

## A Holistic View on Transactional Activity

An analysis of the 'ready' and 'off-plan' transactional activity reveals that both markets account for equal weightages in the number of overall transactions.

A comparison in activity in both markets between 2015 (Jan-Oct) and 2016 (Jan-Oct) reveals that the off-plan market has had a greater fall in activity.

However, this is not surprising given the fact the off plan market has been more dominated by "hot money" flows, and the fact that there has been a transition in the ready market towards an end user base

## Sales and Mortgages in Transactional Activity

There is a startling difference between the mortgage rate between the 'ready' and 'off-plan' market. This indicates the weightage between investors and end users in each.

In the off plan space (dominated predominantly by investors), the overwhelming propensity of transactions is cash based (a statement that was true for the ready market in 2010 as well). We see that in the ready space, mortgage based transactions continue to show a steady increase, and we opine that this will cross 50% in the next 2 years

## Segmentation & Locational Analysis

A segmentation analysis between the 'off-plan' and 'ready' markets reveals that the ratio of sales between vertical and horizontal living remain constant. For every one villa there have been nine apartments sold.

A locational analysis between both markets shows that there is a diametrically opposite geographical trend that has emerged. The ready market is dominated by developments in SZ corridor, while the off-plan space has been skewed towards the rapidly developing MBZ area

## Summary

Historically, analysis on transactions was only conducted for ready transactions, leaving out the crucial off plan segment, which accounts for half of overall transactional activity.

Off plan sales reveal an increasing preponderance towards the affordable segment, hitherto ignored by most developers, and as such presage a continuing surge in demand for this price point.

Further analysis needs to be conducted to distil price and community activity in order to ascertain emerging buying patterns.



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The Ruler of Dubai and Prime Minister of UAE