Executive Summary

• Over the last four years there has been a paradigm shift in the structure of transaction activity in the Dubai real estate market. Historically the majority of transactions would be on a cash basis, with mortgages accounting for only 25% of overall sales. However, in recent years this relationship has inverted, where now mortgage transactions account for the bulk of the activity. This shift can be attributed towards an increase in homeownership, existing owners extracting liquidity, and investors optimizing on capital structures.

• The increase in homeownership in certain communities can be witnessed through the buying patterns. Typically home-owners tend to buy larger size units compared to studios and one bedrooms. An analysis of transactional activity by unit size in Greens and Downtown reveals that in the last 6 years, the former has experienced an increase in larger size units compared to the latter. A similar analysis was conducted in JVC and Sports City. Although both communities had a higher percentage of studio and one bedrooms, you have begun to see a shift in JVC towards larger size units. This implies that homeownership has begun to take root within this community, whereas Sports City remains investor driven similar to Downtown.

• According to the DSC, 18% of the Dubai’s working populating are earning above 10k Aed per month, which is typically the minimum amount needed to qualify for a home loan. An analysis of workers by occupation from 2005 to 2015 reveals that there has been an increase in the categories of Managers (87% increase) and Professionals (48% increase). This shifts signals the economy’s growth in sectors that hire a larger category of blue collared workers. Managers and Professionals are also highest paid category in terms of salaries, and the most probable candidate for homeownership.

• An analysis of the Cash and Deposits against Total Assets with the Central Bank of UAE since Jun 2003 has risen till date implying that the liquidity position of the UAE still remains strong. There is still a significant portion of cash that is ‘sitting on the side lines’, well in excess of the levels seen in the first boom cycle in real estate, implying that liquidity concerns remain exaggerated, and that there is a steady increase in asset ownership currently underway.
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The Paradigm Shift Towards Mortgages

“We are but one of many ideas against a greater imagination.” – James C. Emlund
Paradigm Shift in Buying Patterns of Real Estate

Historically, the market used to heavily dependent on cash transaction, with mortgages only accounting for ¼ of entire activity. However, in the last four years there has been a shift away from cash transactions and towards mortgages, where the latter now accounts for nearly half of all activity. This shift can be attributed towards an increase in homeownership, refinancing from existing owners to extract liquidity and investors taking advantage of capital structures.
The above graphs reveals the mortgage to sales ratios by market segmentation. In both instances, villas and apartments, financing activity has doubled. In the villa segment, it is apparent that there has been significant “refinancing” that has been underway, as current owners have extracted equity from the assets. Whilst there are multiple motives for refinancing, the overall hypothesis of the housing market moving towards a mortgage paradigm is very much in line with international developed markets.
"Your thoughts construct patterns like scaffolding in your mind. You are really etching chemical patterns. In most cases, people get stuck in those patterns, just like grooves in a record, and they never get out of them" – Steve Jobs
Greens and Downtown: A look into Buying Patterns

A break down of the buying patterns by unit sizes reveals that in the last 6 years transactions for smaller size units in Downtown have increased, whereas in the Greens the reverse has transpired. The Greens has a higher mortgage rate than Downtown, implying that homeownership trends are stronger within this community, while downtown still remains investment driven.
A similar analysis was conducted in JVC and Sports City. Given the buying pattern we can see that studio and one bedrooms continue to account for majority of activity in Sports City implying that investor activity is still high. Whereas in JVC we have seen shift in increase for two and three bedrooms, implying that there is higher probability of home-ownership.
Dubai’s Population Gets Top Heavy

“In today’s knowledge based economy, what you earn depends on what you learn.” – Bill Clinton
The above chart illustrate the change in occupation of the Dubai working population from 2005 to 2015. We can witness a significant increase in white collared jobs, especially in the roles of Managers (87% increase) and Professionals (48% increase). It is this shift in employment patterns that is driving home ownership.
The above graph illustrates the segment-wise distribution of wages above 10k Aed. The Managers, Professionals, and Armed Forces are the segments with the highest disposable income. Not surprisingly, a cursory sample size of mortgages undertaken by banks show these professions to be at their highest, indicating a move towards home ownership by these professions.
“To be sure, the provision of liquidity alone can by no means solve the problems of credit risk and credit losses; but it can reduce liquidity premiums, help restore the confidence of investors, and thus promote stability” - Ben Bernanke
An analysis of *Cash and Deposits* with the Central Bank against *total assets* since Jun 2003 has risen till date implying that the liquidity position of the UAE still remain strong. There is still a significant portion of cash that is ‘sitting on the side lines’. Cash levels held by banks are substantially in excess of what they were during the first boom cycle in real estate, implying that asset ownership is poised to increase, a phenomena that we see currently underway with the rising levels of mortgage activity.
Conclusions

The Paradigm Shift Towards Mortgages

Historically, mortgages activity has accounted for 25% of overall sales in the Dubai real estate market. However, in the last few years this ratio has equalized where mortgages account close to 50% of overall transactions.

This shift can be attributed towards an increase in homeownership, existing owners extracting liquidity, and investors optimizing on capital structures.

Whilst there are multiple motives for refinancing, the overall hypothesis of the housing market moving towards a mortgage paradigm is very much in line with international developed markets.

A granular analysis of buying patterns in different communities reveals a change of preference of unit sizes.

In Downtown and Sports City, communities driven by investor demand, we witness a shift from larger to smaller size units from 2010 to 2016.

Whereas in the Greens and JVC, we can see that the opposite has transpired. We opine that the shift to larger size units is the effect of home-ownership as end-users take advantage of the discounts available in the market.

Dubai Population gets Top Heavy

A dissection of the Dubai population by type of occupation reveals that only 18% are being paid over 10,000 Aed.

Within the occupation segments, the white collared positions, Managers and Professionals are in the higher salary bracket.

Since 2005, we have seen a shift in the structure with the positions in white collar jobs as percentage of the over work force increasing by north of 50%.

Cash on the Sidelines

Since the crash of oil prices in mid 2014, fears of a liquidity shortage in the market have been growing.

However, an analysis of Cash and Deposits with the Central Bank against total assets since Jun 2003 has risen till date implying that the liquidity position of the UAE still remain strong.

Historically, the market used to heavily dependent on cash transaction, with mortgages only accounting for ¼ of entire activity.

An analysis of workers by occupation from 2005 to 2015 reveals that there has been an increase in the categories of Managers (87% increase) and Professionals (48% increase).
GCP believes in in-depth planning and discipline as a mechanism to identify and exploit market discrepancy and capitalize on diversified revenue streams.

Our purpose is to manage, direct, and create wealth for our clients.

GCP is the author for these research reports

Indigo Icon, 1708
Jumeirah Lake Towers,
PO Box 500231 Dubai,
United Arab Emirates
Tel. +971 4 447 72 20
Fax. +9714 447 72 21
www.globalcappartners.com
info@gcp-properties.com

Concord Tower, No: 2304,
Dubai Media City,
PO Box 333929 Dubai,
United Arab Emirates
Tel. +971 4 277 68 35
Fax. +971 4 360 47 88
www.reidin.com
info@reidin.com
Our Aspiration and Motto

“No barrier can withstand the strength of purpose”

HH General Sheikh Mohammed Bin Rashid Al Maktoum
The Ruler of Dubai and Prime Minister of UAE