

White Paper

Demand for Affordable Housing in Dubai | Dubai
October 2014



Addressing The Housing Gap

Measuring Affordability Levels in Dubai



Accelerating success.



Ian Albert
Regional Director | Middle East
Colliers International
ian.albert@colliers.com



Mansoor Ahmed
Director | Development Solutions
Colliers International
mansoor.ahmed@colliers.com



Mariam Mahmooth
Senior Consultant | Development Solutions
Colliers International
mariam.mahmooth@colliers.com

Colliers International

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Introduction

Affordability is a relative measure, especially in a growing real estate market with a high per capita income, such as Dubai. A commonly accepted guideline for housing affordability is when accommodation costs are within 30% of a household's gross income. Given that the total monthly income for 50% of Dubai households (excluding those in labour/staff/shared accommodation) is between AED9,000 – AED15,000, to remain *affordable* expenditure on housing should not exceed AED32,500 – AED54,000 per annum.

Although this income bracket represents the majority of households in Dubai, it is presented with limited housing options in terms of product type and location in both the rental and freehold markets. This whitepaper highlights the current housing gap in light of existing market fundamentals of residential demand and supply – namely the lack of appropriate, affordable housing for the majority of households in Dubai.

The availability of affordable housing not only assists in attracting and retaining a skilled labour force, but it also increases the overall spending power of households. These households can then afford to improve their existing quality of life by increasing their spending on vital social infrastructure facilities such as better levels of education and healthcare for their families. An easing of rental levels in Dubai will also attract those currently living in more affordable commuter towns such as Sharjah and Ajman, further boosting the local economy of Dubai.

Key Messages:

- Guideline for housing affordability: 30% of a household's income
- 60% of all freehold apartments are below AED 1million; 93% of these are studios and one bedroom units
- 50% of households (excluding those in labour/staff/shared accommodation) earn between AED9,000 and AED15,000 per month. Households in this income bracket can afford rents of AED32,500 – AED54,000 p.a.
- The market is currently achieving high occupancy levels at 87%
- The average household size in Dubai is currently 4.2 family members. As a minimum, households of this size require a 2 bedroom unit
- International City, Dubai Silicon Oasis, Discovery Gardens, Al Qusais, Deira and Al Nahda are the only locations in Dubai where rents range from AED 32,500 – AED54,000 p.a. (studio and one bedroom units)
- More affordable housing locations witnessed the highest YOY rental increases
- Properties below AED 2 million represented 34% of total mortgage transactions in Q2 2014 (Colliers HPI)

Demand Vs. Supply

The gap between residential demand and supply is currently 13% across Dubai. In a market where the majority of households are renters, and are highly mobile, achieving an 87% occupancy level can be considered relatively healthy.

Colliers International estimates that an additional 51,000 housing units are due to enter the market during 2014 – 2020. Despite this significant increase in supply, high population growth rates of 5% per annum are expected to move existing market fundamentals towards an undersupplied market.

Analysis of forthcoming residential supply by location, suggests that approximately 50% of these units are targeted towards the upper-mid and higher-end of the market (Business Bay, Dubai Marina, Dubailand Villas, Culture Village, Legends, Palm Jumeirah)

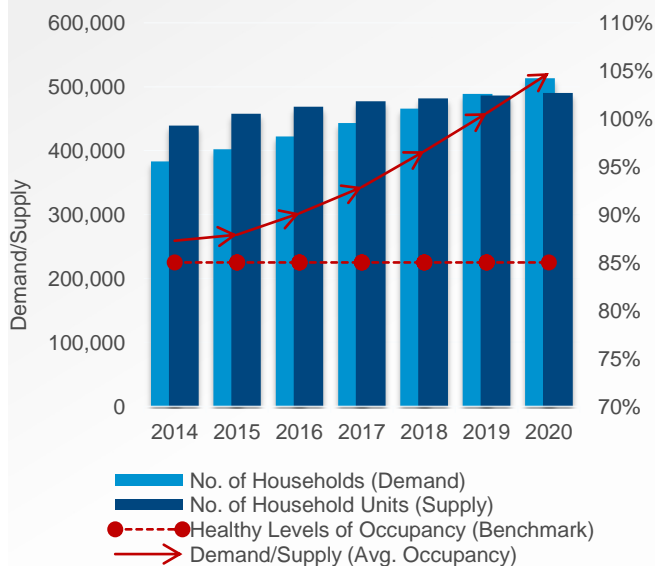
Determining the Optimal Occupancy Rate for Dubai’s Residential Market

“The optimal occupancy rate is subjective to a number of cyclic and fundamental factors of both the macro-economy and the local real estate market. Analysis of occupancy rates and YOY rental increases in Dubai since 2005 suggests that a healthy occupancy rate is at 85%”

		Avg. Occupancy	Avg. YOY Rental Increase
Boom Years	2005 – 2008	93% - 100+	33%
Recovery Years	2012 – 2014	86% - 87%	18%
Optimal Occupancy Level		85%	

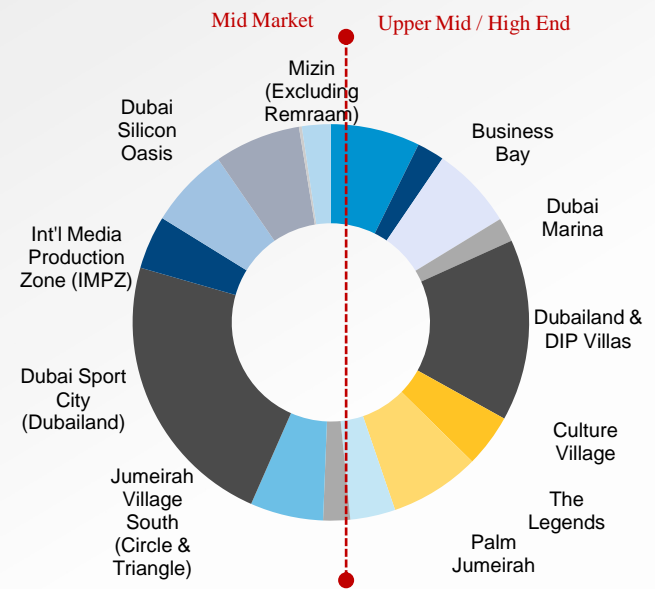
Source: Colliers International

Exhibit 1: Dubai Residential Demand and Supply



Source: Colliers International

Exhibit 2: Forthcoming Supply by Area



Source: Colliers International

*locations = < 2% are excluded in the illustration

“An average occupancy level of 87% in Dubai reflects a healthy market. However, with demand growing at a higher rate than supply, market fundamentals are likely to move towards an undersupplied market”

Affordability in the Rental Market

Affordable housing takes many different forms, and this whitepaper uses the term to define all housing units at levels affordable to average households in Dubai.

Analysing the latest available income and expenditure surveys published by Dubai Statistics Centre, suggests that average households in Dubai spend approximately 30% of their income on housing*. This number however, is likely to increase as a result of an upward rental trend being witnessed recently.

This indicator is comparable to a number of established international benchmarks, such as the Department of Housing and Urban Development (USA) and NSW Government (AUS), where the accepted definition of affordability is for a household to pay no more than 30% of its annual income on housing. In the UK, The National Housing Federation defines affordable rent levels at 25% of household income.

With rental levels increasing at a significantly higher rate than average income, affordable housing in Dubai is a limited commodity.

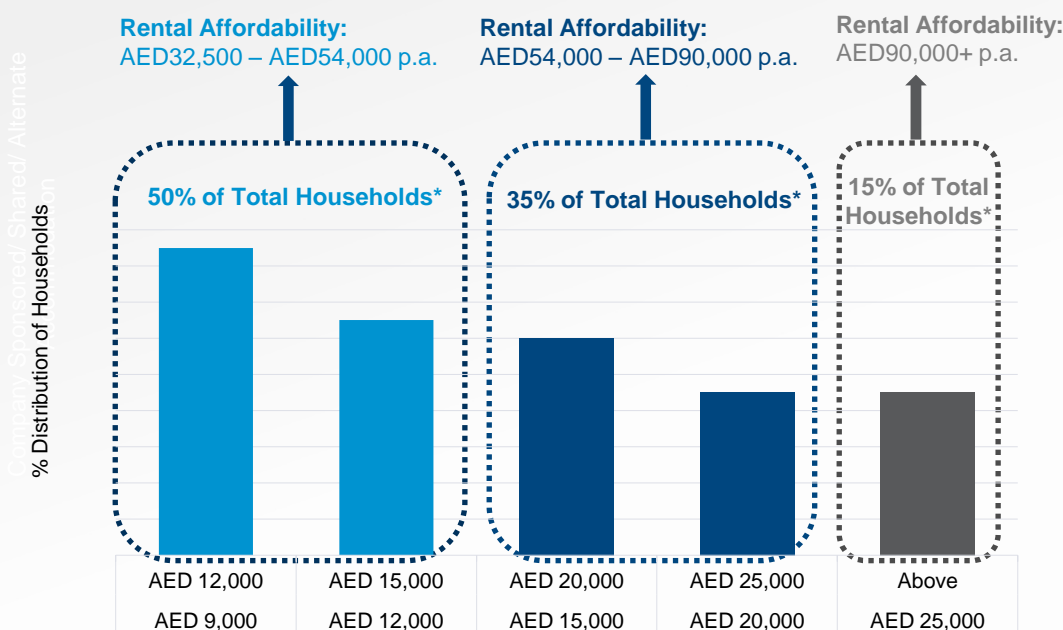
The distribution of income levels in Dubai suggests that 40% of total households are earning less than AED9,000 per month. As households in this income category which is generally provided with accommodation by their employers (mainly comprising of contractors, hospitals, hotels and retailers), or are living in shared/alternate accommodation facilities, they will be omitted from the study. Analysis of monthly household income levels also suggests that 50% of Dubai’s total households earn between AED9,000 and AED15,000. At this income bracket, they can afford rental levels between AED32,500 and AED54,000 per annum.

Households earning between AED15,000 and AED25,000 a month can afford rentals ranging between AED54,000 and AED90,000 per annum. This market represents 35% of total households in Dubai. The highest income bracket represented by households earning AED25,000 and above per month are a limited 15% of total households. Rental affordability at this top tier of the market starts at AED90,000 per annum.

“50% of total households in Dubai can afford rentals between AED32,500 and AED54,000 p. a.”

**excluding those in company sponsored / shared accommodation*

Exhibit 3: Monthly Household Income Distribution in Dubai



Source: Colliers International

* Total households excluding households in company/ shared accommodation

Rental Rates

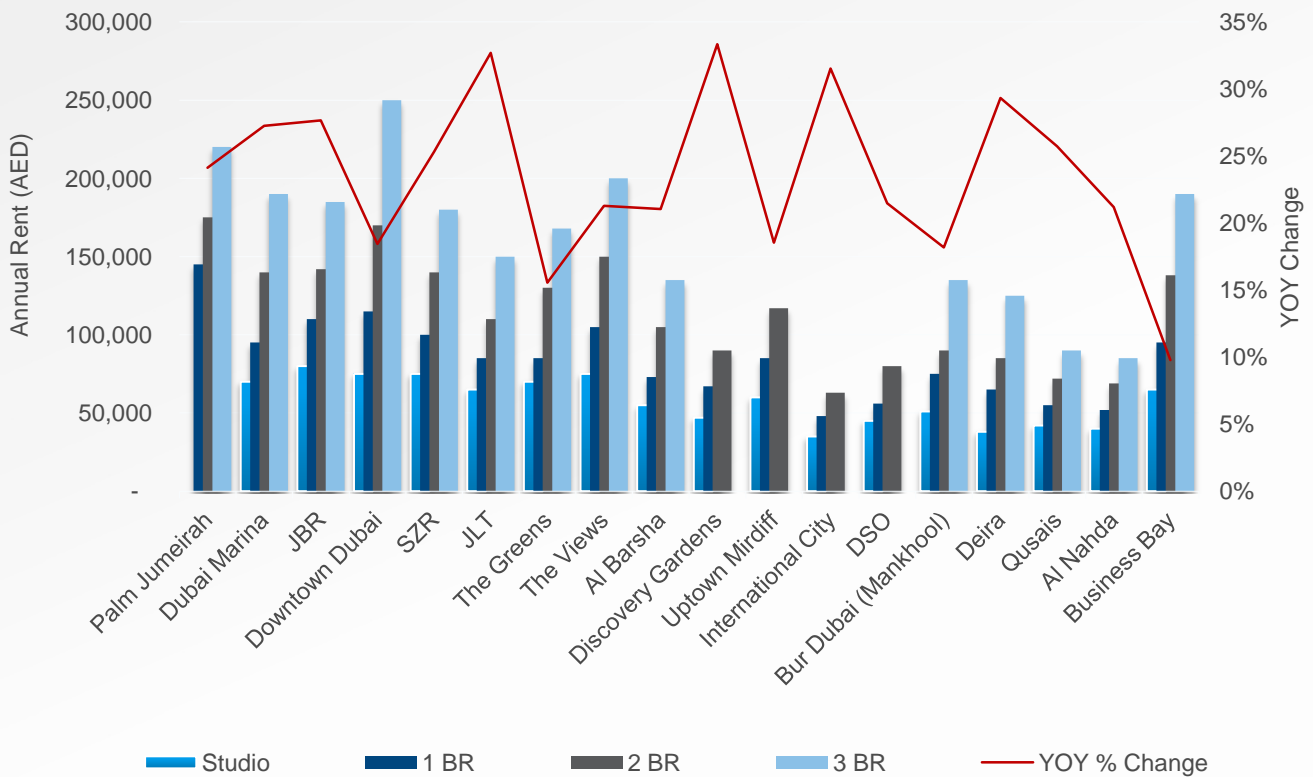
Average rents across Dubai increased 22% year-on-year (Q2 2013 – Q2 2014).

While established residential developments such as Palm Jumeirah, Dubai Marina, Jumeirah Beach Residences (JBR) and Sheikh Zayed Road (SZR) continue to witness significant increases in rentals, more affordable housing locations such as Jumeirah Lake Towers (JLT), Discovery Gardens, International City and Deira have witnessed the highest increases in rental rates YOY (30% – 35%), highlighting the growing demand for affordable housing.

As illustrated in Exhibit 4, rental levels that are affordable for 50% of total households in Dubai (excluding those in company sponsored/shared accommodation) are achieved in International City, Dubai Silicon Oasis, Discovery Gardens, Deira, Al Qusais and Al Nahda. Rental at this level, however, are limited to smaller units of studios and one bedroom apartments within these locations. Given that the average household size in Dubai consists of 4.2 members, which as a minimum require a 2 bedroom unit, research indicates that there are limited/no such units available in the market for this demographic. As a result tenants in this income bracket seek alternative accommodation in more affordable neighbouring emirates.

“More affordable housing locations such as JLT, Discovery Gardens and International City witnessed the highest YOY rental increases”

Exhibit 4: Average Rental Rates in Key Residential Districts across Dubai



Source: Colliers International

According to Colliers’ Rental Affordability Analysis, households earning between AED9,000 – AED12,000 can afford rentals across areas such as International City, Deira, Qusais and Al Nahda. There are a number of households within this income bracket that occupy units in more expensive locations, however, they are spending more than 30% of their annual income doing so.

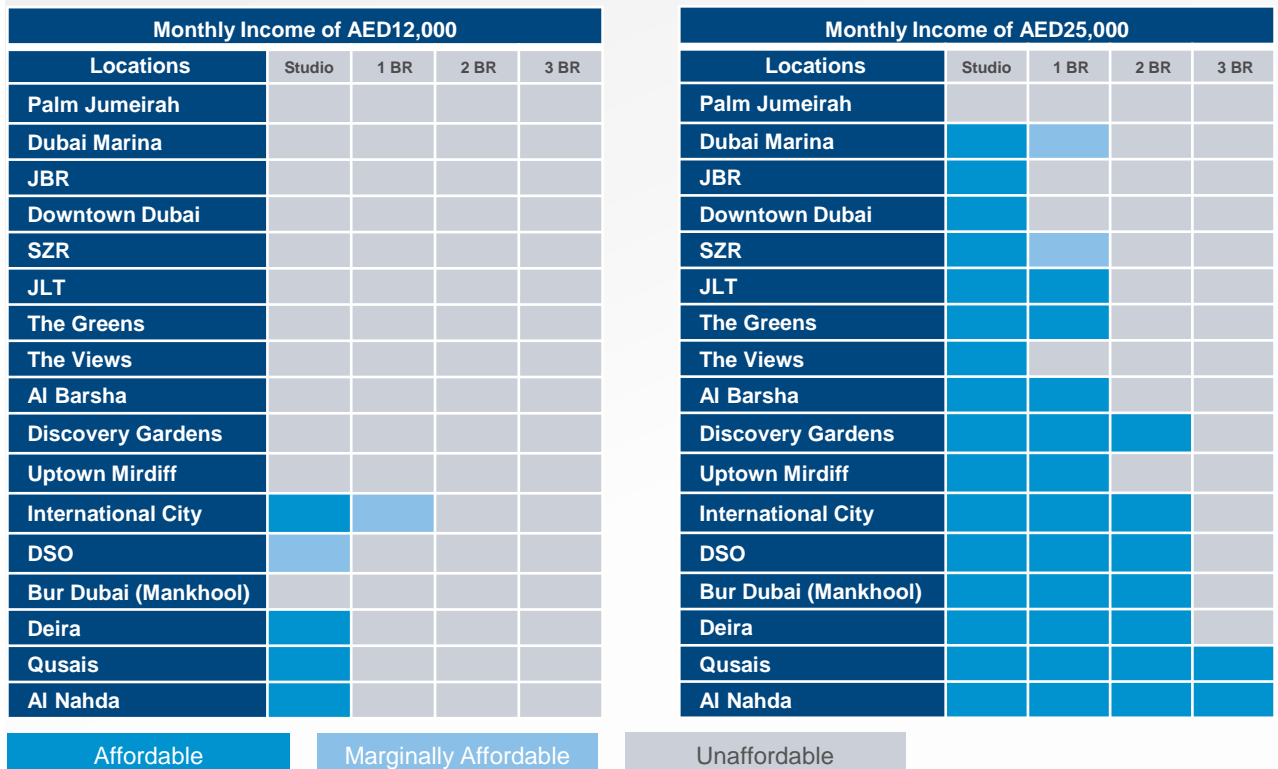
Exhibit 5 highlights rental options across key residential locations for two sample households in Dubai; a household earning AED12,000 per month (represents 28% of households in Dubai), and a household earning AED25,000 per month (representing approximately 15% of Dubai households).

As graphically illustrated, those earning AED12,000 per month are not only limited by location, but are also restricted to studio units within these limited areas. The only one bedrooms that are within their budget are those in International City, although this too requires a cost marginally higher than 30% of their monthly income.

Rental options for households with a monthly income of AED25,000 are spread across many locations, albeit the majority are limited to smaller units (studios and one bedroom apartments). Households requiring a minimum of two bedroom units can afford these larger units in Discover Gardens, International City, Dubai Silicon Oasis, Bur Dubai, Deira, Quasis and Al Nahda.

“Households earning between AED 9,000 and AED 12,000 per month represent 28% of total households in Dubai. They, however, are limited to rental options in areas such as International City, Deira, Qusais and Al Nahda. They are further restricted in that their only options in these areas are studios and one bedroom units.”

Exhibit 5: Rental Affordability Analysis : A comparison between two households
 (1) Household earning AED12,000 per month (2) Household earning AED25,000 per month



Source: Colliers International

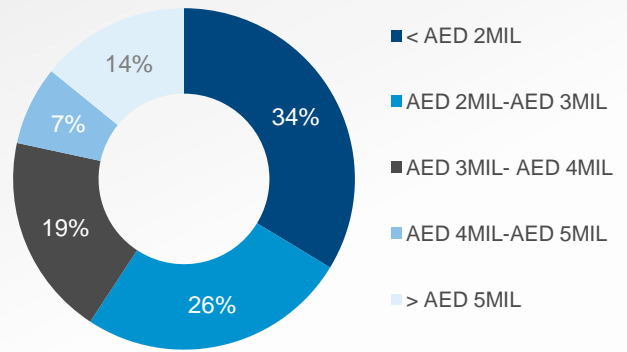
Affordability in the Sales Market

The Colliers International House Price Index (HPI) was established in January 2008 by Colliers International and five leading banks and financial institutions in the Emirate of Dubai. The index provides statistics specifically designed to reflect the average growth – decline rate of house prices across certain foreign ownership areas of Dubai, United Arab Emirates.

According to the latest HPI (Q2 2014), apartments represented 67% of total transactions. The affordability of apartments, compared to higher premiums of villas and townhouses, along with the availability of this asset type in the market are some of the primary contributing factors for its preference among investors.

Analysing the latest HPI transactions by sales value suggests that the largest single component of all mortgage transactions are for properties below AED 2 million (34%) – refer Exhibit 6.

Exhibit 7: HPI Transactions by Unit Type, Q2 2014

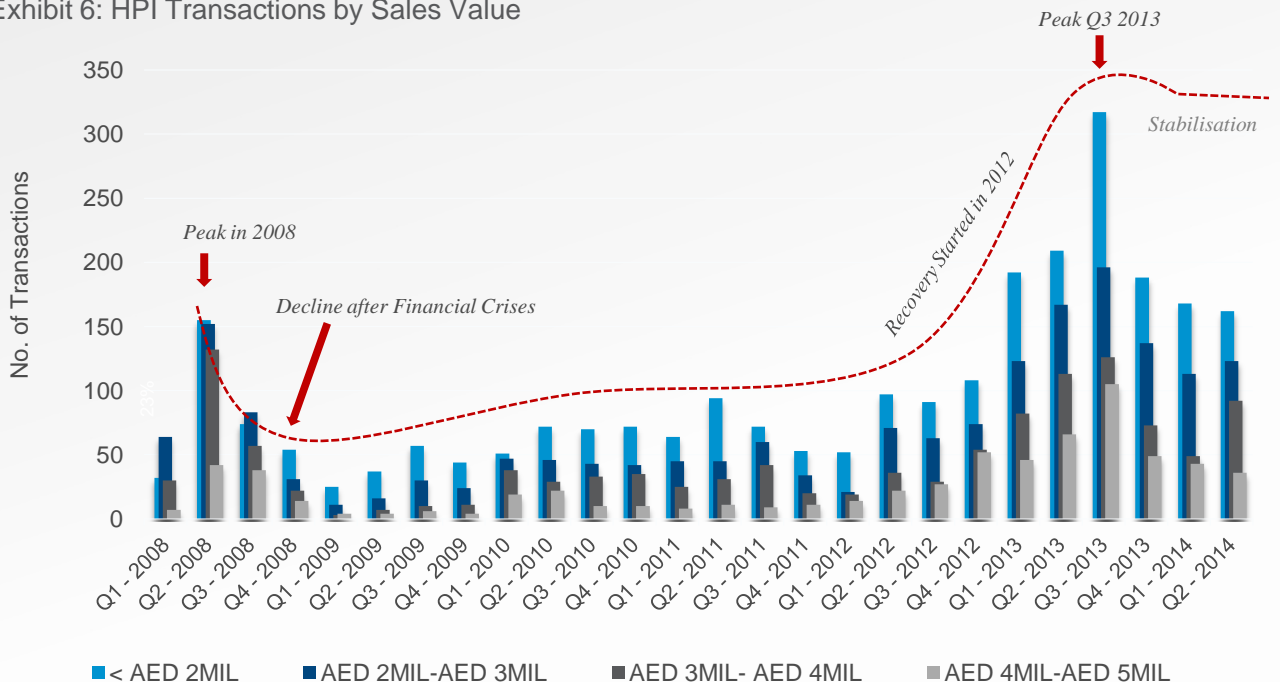


Source: Colliers International

Comparing transactions by sales value during Q2 2014 and Q2 2008, the number of properties transacted below AED 2 million has increased by 7%, while the number of transactions on properties sold above AED 5 million has reduced by the same percentage. Among the main reasons for the increased interest in more affordable properties, are the recent limitations within mortgage financing (minimum 25% down payment) and improved availability of freehold units (more affordable studios and one bedroom units). The availability of more affordable larger units (2 bedrooms/ above) however, remains unmet.

“34% of HPI transactions in Q2 2014 were for properties below AED 2 million ”

Exhibit 6: HPI Transactions by Sales Value



Source: Colliers International

Mortgage Affordability

Mortgages available for expatriates in Dubai generally require a minimum average monthly income of AED15,000, along with a down payment of 25% of the property’s value.

Interest rates vary significantly and are dependent on both the terms of the lender as well as the credit rating of the borrower.

The following exhibit illustrates the monthly instalments payable on a sample of properties of which the values range between AED 2 million and AED 5 million.

As discussed previously, 20% of Dubai’s households earn between AED15,000 and AED20,000 per month. This income category can afford mortgage payments for properties AED 2 million and below.

Properties priced between AED 2 million and AED 3 million require monthly installments of AED8,200 – AED12,200. These payments are affordable by those earning between AED20,000 – AED25,000, represented by 15% of Dubai households.

Properties priced at AED 3 million and above are affordable by those earning AED25,000 and above, which are also represented by 9% of households.

Assumptions used to calculate mortgage payments:

- Interest rate: 4.25% reducing rate
- Repayment period: 25 years
- Borrowers’ leverage: 35% of income
- Down payment: 25% of property value

“The mortgage instalment for a property priced AED 1 million is AED4,056 per month – a 35% leverage of a resident earning AED11,600 per month.”

Exhibit 8: Average Monthly Instalments for Mortgages Based on Property Value

Affordability by % of Households	Property Value	Avg. Monthly Instalment for Mortgage	Distribution (%) of Actual Mortgage Transactions
60%	< AED 1 Million	< AED 4,056	34%
	< AED 2 Million	< AED 8,112	
18%	< AED 3 Million	< AED 12,168	26%
	< AED 4 Million	< AED16,225	19%
	< AED 5 Million	< AED 20,281	4%
	> AED 5 Million	> AED 20,281	14%
9%			

Source: Colliers International

Affordability in Freehold Supply

Colliers' research suggests that there are approximately 120,000 freehold apartments in Dubai; 59% of which are priced below AED 1 million, and require a mortgage payment of AED4,056 per month.

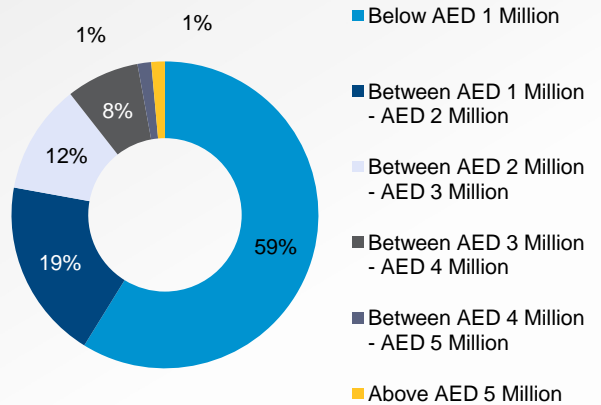
These properties are affordable for 60% of Dubai's households. However, there remains a clear mismatch between demand and availability of suitable and affordable supply.

The average household size in Dubai consists of 4.2 members. These households generally require a minimum of a two bedroom apartment. However, analysis of existing supply suggests that affordable two bedroom apartments are limited.

Two bedroom apartments below AED 1 million represent just 5% of total freehold supply, and those below AED 2 million still represent a limited 9% of total freehold supply.

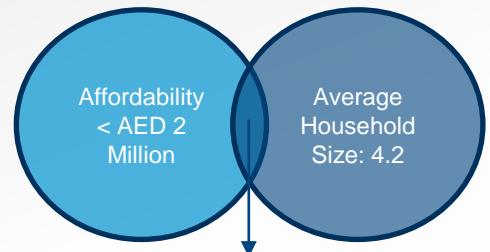
It is Colliers' opinion that the mismatch between affordability and the availability of suitable housing, needs to be addressed when planning future developments.

Exhibit 10: Distribution of Freehold Apartments by Price



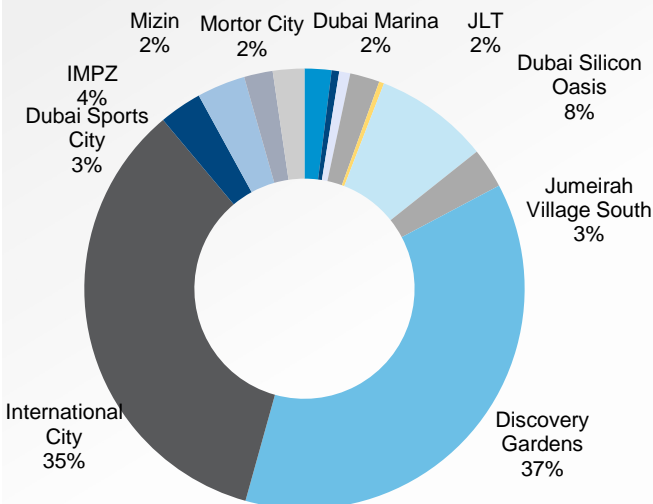
Source: Colliers International

Exhibit 11: Market Gap between Affordability & Need



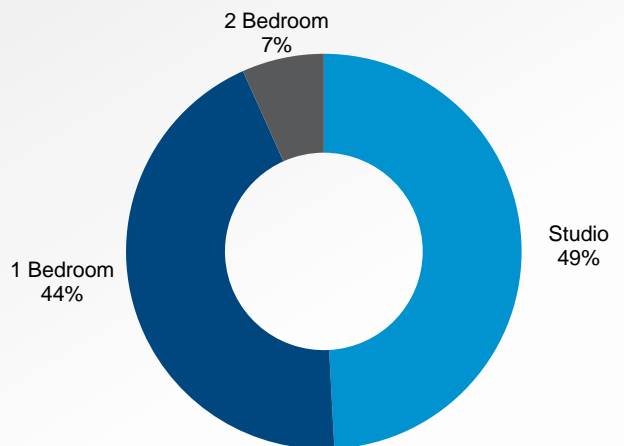
Supply of 2 bedroom apartments < AED 2 Million: 10,600 units (9% of total freehold supply)

Exhibit 9: Freehold Apartments < AED 1 Million



Source: Colliers International

Exhibit 12: Freehold Apartments by Unit Type < AED 1 Million



Source: Colliers International

Affordable Communities can be Developed Successfully

Dubai is a layered economy, with each income bracket contributing significantly towards the overall development of the economy and its real estate market. In order to maintain real estate as a sustainable investment asset, it is essential to ensure that this ‘layering’ system improves and all income brackets are serviced successfully.

Affordable housing when developed effectively, can provide high returns for investors. Community facilities such as neighbourhood retail, schools, healthcare services and leisure facilities can generate significant additional revenue for the developer, whilst maintaining affordable rental levels.

Developing a community integrated with such facilities in well connected locations (easy access to the main arteries, and public transport network), attracts high occupancy rates and retains the value of developments.

Anecdotal evidence suggests that there are approximately 1 million people commuting to Dubai from Sharjah; due to more affordable accommodation in the neighboring emirate.

Increasing the availability of affordable units in Dubai is likely to attract a significant share of these residents resulting in less hours lost in productivity. Employers will also benefit with lower transportation and both direct and indirect employee cost.

With innovations in low-cost building technology (cost-effective construction methods, and not low-build quality) being applied across the globe, developers in Dubai can combine these mechanisms to effectively service the increasing demand for affordable housing.

Conclusion

Having access to housing that is affordable by the majority of households clearly results in both social and economical benefits.

As seen globally, governments are actively involved in providing developers access to well located and serviced land as active incentives for developers to develop affordable housing. Land infrastructure by the government is leveraged against social infrastructure and greater returns to the local economy (in terms of retail sales, revenue from housing fees, other administrative fees etc.).

It is Colliers’ opinion that offering more such government incentive programs will increase the availability of housing units that are *affordable* to the majority of households, both within the rental and sales markets.

Exhibit 13: Key to Successfully Developing Affordable Housing Communities



Source: Colliers International

“Public Private Partnership (PPP) is also another way for developing Affordable Housing in partnership with Private Developers”

Exhibit 14: Primary Benefits of Affordable Housing

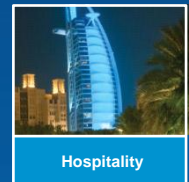
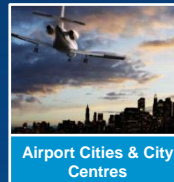
Economic Benefits	Developer Benefits
Greater returns for the local economy (by means of retail sales/ housing fees/ visas/ other administrative fees etc)	Incorporating revenue accelerators (retail/ F&B, healthcare and educational facilities) within affordable housing communities are likely to increase the developers’ overall returns on the project
More productive workforce owing to reduced travel time	

Source: Colliers International

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\$2.1

billion in
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1.46

billion square feet
under management

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professionals
and staff

For further information,
please contact:

Ian Albert

Regional Director | Middle East
+971 4 453 7400
ian.albert@colliers.com

Mansoor Ahmed

Director | Development Solutions
+971 4 453 7400 | +971 55 899 6091
mansoor.ahmed@colliers.com

Sadallah Al Abed

Senior Manager | Development Solutions
+971 4 453 7400 | +971 55 899 6106
sadallah.abed@colliers.com

Mariam Mahmooth

Senior Consultant | Development Solutions
+971 4 453 7400 | +971 55 899 6108
mariam.mahmooth@colliers.com

Colliers International | MENA Region

Dubai | United Arab Emirates

+971 4 453 7400

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