DUBAI HOUSE PRICE INDEX

SECOND QUARTER
2012

COLLIERS INTERNATIONAL
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OVERALL EXECUTIVE SUMMARY

- The overall quarterly index increased in Q2 2012, reaching 118 points compared with 107 in Q1 2012, constituting an 11% increase.
- Y-O-Y the index increased 12% in Q2 2012 compared with Q2 2011.
- Y-O-Y, apartment prices increased 12%.
- Y-O-Y, townhouse prices increased 23%.
- Y-O-Y, villa prices increased 10%.
- The blended average rate for residential property in Q2 2012 is AED 1,052 per ft\(^2\) (AED 11,319 per m\(^2\)) compared to AED 949 per ft\(^2\) (AED 10,088 per m\(^2\)) in Q1 2012.
- Apartment prices increased to 108 points in Q2 2012 compared with 99 points in Q1 2012.
- Townhouse prices increased by 10% in Q2 2012 compared with Q1 2012.
- Villa prices significantly increased in Q2 2012 compared with Q1 2012 increasing 18 points to reach 146 points, showing a 14% increase.
The Quarterly Dubai House Price Index showed a total increase of 11 points in Q2 2012. However, the blended average rate for residential property in Q2 2012 is AED 1,052 per ft² compared to AED 949 ft² Q1 2012. The quarterly index measured against Q2 2011 has seen a rise of 11% in value.

The index witnessed an overall increase due to significant increases in all three sectors. This overall increase can be attributed, to a major degree, to the increase in villa values. The Villa index increased 14% total during the period between Q2 2012 and Q1 2012, however year on year performance was strong with a 10% overall increase.

*See the full chart in the appendix*
This quarter, the index has seen an uplift from the previous seven quarters which had remained relatively stable. This quarter, a significant increase of 11 index points has led to a 12% rise in value from Q2 2011.

The developments which have most affected by the rise have been mainly villa and townhouse developments, such as the; Lakes, Meadows, Palm Jumeirah and the Arabian Ranches. The reason for these increases is again attributed to the following market drivers;

**RE-ENTRY OF LONG AND SHORT TERM INVESTORS**

Real Estate Agents have generally observed a return of investors into the market. The investors are mainly targeting properties such as townhouses and apartments between two and three million dirhams in value, which yield good rental returns.

**AVAILABILITY OF FINANCE**

Several mortgage providers have reduced interest rates on mortgage loans and are currently more active in the market. Mortgage interest rates in today’s market range between 3.99% - 7%. Lenders are offering attractive mortgage packages and special offers such as free valuations and free maintenance for one year. Loan to value ratios are also increasing in some cases.

**UNREST IN THE ARAB REGION**

Some commentators and analysts feel that some of the increased demand in the market can be partially attributed to the unrest in the region and the status of Dubai as a safe haven. Informally, real estate brokers have reported a significant number of cash transactions placing upwards pressure on prices and availability within specific demand areas.

**IMPROVED SENTIMENT**

The perception by many, supported by this HPI, that the market bottomed out and that the worst is behind had positively impacted sentiment of investors and end-users which has translated into improved demand. Investors and end-users who have previously postponed purchases having observed a sustained period of stability and lateral increases have returned with confidence especially in established villa and townhouse communities. The popularity of developments by trusted developers, specifically Emaar, has been evident, possibly reflecting purchasers’ desires for security rather than speculative investments in less popular projects.
BETTER ECONOMIC OUTLOOK

Improvements in the regional economies and improved future outlook had increased the job security amongst the long-term expatriate workforce, which in turn, affected demand positively.

IMPROVED STATUS OF COMPLETE DEVELOPMENTS

Most of the demand is channelled towards developments where construction and internal street landscaping has been complete. These developments are able to capture most of the demand due to several factors, most important of which is liquidity. Because these developments are complete, they are more liquid (easier to sell) compared with other developments. Additionally, mortgage lenders provide easier finance (lower interest rate and higher loan-to-value ratios) towards these developments, which further increase demand for these developments.
2.2 ALTERNATIVE ANALYSIS

As part of the on-going enhancement of the Colliers HPI we have introduced two further market indicators or markers. Each marker adopts a different view to assess the relative strengths, weaknesses and position of the Dubai residential market.

2.3 REAL ESTATE RETURNS

In Q2 2012, the DFM performed positively, decreasing 12% of its value while the HPI has seen an 11% increase in performance.
From the following chart the HPI has, since its inception in Q1 2007, outperformed the DFM index. In this regard, a residential investment purchased in Q1 2007 has, to date over the six year period, generated returns of circa 18%. A similar investment in the DFM for the same period has generated losses as high as 61% in Q2 2012, down from 59% recorded in Q2 2011.
2.4 PRICE TO RENT RATIO

To provide further analysis of the residential real estate market, Colliers International introduced the concept of Price-to-Rent ratio (PRR). This ratio is widely used as an indicator of the fundamental value, generated from rental income, of real estate assets.

The ratio simply measures the relationship between the prices (taken from the HPI) of purchasing a residential property and the rental income. A high property price associated with a flat rental market (as in most western markets) increases the value of the ratio, indicating that property values are expensive; the higher the ratio is away from its long run average indicates the onset of a market price bubble. However if rents are falling there would be the expectations of a greater fall in property prices as investors receiving less income would pay less for residential property.

For the purpose of this analysis, Q2 2007 is assumed as the base quarter and the ratio is rebased at 1 (Q2 2007 = 1).

The ratio, in Q2 2012, has increased, standing at 1.36 compared to 1.29. This increase can be attributed to the increases in apartment rentals and slight decreases in townhouse and villa rentals.
The Annual Dubai House Price Index increased 12% in Q2 2012. The blended average rate for residential property in Q1 2011 was AED 1,052 per ft² (AED 11,319 per m²) compared with AED 937 per ft² (AED 10,088 m²) in Q2 2012.
The Annual Overall Apartment Index increased by 12% in Q2 2012, compared with Q2 2011. The index increased to 108 points from 96 points.

The blended average rate per ft² for apartments in Dubai in Q2 2012 was AED 1,089 (AED 11,722 per m²) compared with AED 973 (AED 10,472 per m²) in Q2 2011.
The Quarterly Overall Apartment index saw an increase in Q2 2012 compared to Q1 2012.

The blended average rate per ft² for apartments in Dubai in Q2 2012 was AED 1,089 (AED 11,722 per m²) compared with AED 999 (AED 10,756 per m²) in Q1 2012.
The Annual Overall Townhouse Index increased by 23% in Q2 2012, compared with Q2 2011. The index increased to reach 107 points.

The average blended rate per ft\(^2\) for townhouses in Dubai in Q1 2012 was AED 851 (AED 89,157 per m\(^2\)) compared with AED 693 (7,462 per m\(^2\)) in Q1 2012.
The Quarterly Townhouse Index has increased 10% in Q2 2012 compared with Q1 2012 to reach 107 points.

The average blended rate per ft² for townhouses in Dubai in Q2 2012 was AED 851 (AED 9,157 per m²) compared with AED 777 (AED 8,362 per m²) in Q1 2012.
The annual Villa Index has increased in Q2 2012 compared with Q2 2011. The index registered a 10% increase.

The average blended rate per ft² for villas in Dubai in Q2 2012 was AED 1,056 (AED 11,367 per m²) compared with AED 958 (AED 9,959 per m²) in Q2 2011.
Villas witnessed an increase in sales with a 14% increase from Q1 2012. The index increased to reach 146 points compared with 128 points in Q1 2012.

The average blended rate per ft$^2$ for villas in Dubai in Q2 2012 was AED 1,056 (AED 11,637 per m$^2$) compared with AED 925 (9,959 per m$^2$) in Q1 2012.