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UNCATEGORIZED

The stars are aligning for the UAE real estate market

Investing in real estate is never an exact science. But the practice can be honed through hundreds of hours of immersion in not just the real estate and property markets, but in the financial, political and economic outlooks globally and locally

Staff Writer Tue 4 May 2021



Real estate investors will often say they follow their instincts, and right now, instincts are pointing to the UAE real estate market – especially Dubai's.

Investing in real estate is never an exact science. Some successful investors will tell you that it is largely down to instinct, but what they won't tell you is that that instinct is honed through hundreds of hours of immersion in not just the real estate and property markets, but in the financial, political and economic outlooks globally and locally.

In a globalised world, it is pointless to only look at factors linked to the country you are interested in. One location's success, or attractiveness to investors will always be relative to other locations it is competing with. A real estate investor needs to have an in-depth knowledge of the sector and macroeconomic factors, which are constantly changing. Only then, will their "instinct" tell them whether or not now is a good time to invest.

It may never be an exact science, but by considering different variables investors can determine with a certain amount of confidence what countries, cities, or even specific areas are likely to yield the best results.

And most, if not all of those very same factors are pointing towards the fact that the UAE, and Dubai in particular, are currently sitting in a sweet spot of investment potential.

Level playing field

The real estate industry is a competition. Not just between individual projects as they race to get investors on board, but between cities, countries, and regions. At the risk of simplifying global economics to a couple of sentences, if you were to plot the economic development (and hence the attractiveness for investment) of a nation over time (usually the GDP), then in almost all cases it would demonstrate a wave pattern.

It is every investor's intention to invest in the real estate sector at the bottom of one of these waves, or more appropriately at the trough of the market cycle – or at least at the point where in theory the market should start to recover and continue its trajectory upwards.

As you can imagine, each country's market cycle is at a different stage of growth or decline, making it not just a case of investors looking at individual countries, but also comparing them to see which is likely to rise most steeply in the foreseeable future.

The pandemic has had the almost unprecedented effect of resetting practically every country on the planet back to an equilibrium. How they improve or continue to decline from here will obviously differ, but the UAE provides an impressive and opportunistic baseline due to its real estate infrastructure that will surely help the sector thrive after the pandemic is over and economic activities resume.



We can possibly draw parallels to what happened to Dubai post global financial crisis in 2008. The pre-recession investment that went into developing great projects coupled with the healthy economic growth and lifestyle quality provided helped

Dubai leap forward and become more attractive to international investors. The same is happening now; the way in which the UAE has handled the pandemic combined with its real estate quality, lifestyle, education and healthcare will place it at the forefront of many economies in the region and globally when it comes to location attractiveness. We have recently seen many international investors relocating their families to the UAE exactly because of these advantages.

The rest of the world

It is too soon to say with any certainty which countries' economies will recover the quickest and which will fall behind, but there are aspects that we can look to that will have an effect on the real estate markets in the longer term. The shift in working patterns towards home and remote working experienced during lockdowns in the UK, Europe and the US is very likely to be something that continues not just in the short to mid-term, but possibly in the long-term. This will have an undetermined effect on office space in the major cities, but also in all property in those cities as people are no longer tied to a commutable distance to their office for a home. Regardless of anything else, this creates uncertainty, and if there is one thing that the markets and investors do not like, it is uncertainty.

And of course, there are the dual issues in Europe with regards to the EU's poorly managed vaccine roll out and the uncertainty around Brexit.

Why Dubai

The resetting of the global economies and the problems facing many of the countries globally put the UAE in such a strong position for attracting interest from investors both domestic and international.

The UAE's economy is predicted to bounce back relatively quickly, with the IMF forecasting a 3.1 percent GDP growth, and crucially that growth is expected to continue. Q1 has already seen a healthy growth in the UAE real estate market, with a marked move from a market that was almost entirely domestically driven over the past few years, to one that is attracting more and more foreign and institutional capital. The economy is further supported by a revitalised growth in the UAE and Dubai's non-oil foreign trade in 2020 which touched \$321 billion.



There are several reasons for that growth. Firstly, the UAE is seen as a safe haven financially, especially for those from many of the other MENA nations, as well as Africa and parts of Asia, where once again uncertainty and even instability will make investors look for alternative options.

Once an investor knows their money is safe, the next consideration is the yield and how secure that yield will ultimately be. Everything else being equal, it is the projected yield that will be the decisive factor. Here, the UAE is very strong, offering more than 7 percent gross rental returns on average, and many real estate projects producing between 6-12 percent unlevered net yields. In a world with historically low interest rates, and an insatiable desire for yield, the UAE stands out like a shining beacon.

Dubai was recognised in JLL's Global Real Estate Transparency Index as one of the "global top improvers" due to more than just the yield. This score was boosted by government initiatives to improve corporate and real estate sustainability. The government has been proactive with its business-focused initiatives (low taxation, free zones, ease of registration to name just three) and its robust regulatory procedures.

Finally, let's not forget that Dubai is one of the most sought-after places to work and live. Once again, the government has helped with its introduction of new visa categories to attract more professionals, investors and families. Further, the weather, architecture, culture and lifestyle are all substantial draws for people from Europe and the US. Its strategic location makes it a lot more attractive than Singapore for example, where the distances involved are a hindrance for people wanting a second or holiday home. Those of us who have lived, worked and invested in the UAE for years have known this all along, the rest of the world finally seems to have caught on.

Imran Sheikh is a leading real estate expert.

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