

Affordable Housing: Lessons For The UAE

Executive Summary

- In many parts of the world, affordable housing policies are a redistributive economic tool providing access to housing for segments of the population that would find it hard to rent or buy decent residential property.
- Overseas affordable housing policies we have studied try to infuse private capital with government funding to either construct housing or provide rental accommodation, but the ultimate responsibility for ensuring people are appropriately housed remains with government bodies.
- The UAE has a number of programmes for Emiratis to have access to decent accommodation.
- Aided by incentives in UAE planning policies, market dynamics should drive the supply of affordable housing for middle income non-citizens that are essential for the continuing prosperity of the UAE's economy.
- UAE authorities can incentivise private developers to build affordable housing through provision of inexpensive land, ensuring master developers allocate areas for affordable housing, cross-subsidisation from commercial or higher end residential developments, etc.
- Public transport infrastructure such as the Dubai metro aids the development of affordable housing.
- We look at two specific cases of affordable housing: an 800 sq ft NSA and 1,200 sq ft NSA apartment, from which rental income provides 5% net yield to an investor. We estimate total project costs need to come down to between AED 440 and AED 540 per sq ft BUA, which would provide developers with a 20% profit margin.
- Affordable housing would require fewer amenities, common space and high-end finishes, and apartments would be smaller with fewer bathrooms.
- Market-driven provision of affordable housing in the UAE is feasible as construction costs have declined, but increases in construction costs would again make provision of affordable housing difficult without more public authority intervention.

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Table of Contents

- 1. WHAT IS AFFORDABLE HOUSING? 3
- 2. HOW DO CITIES CREATE AFFORDABLE HOUSING? 6
- 3. A WORKED EXAMPLE 11

1. What Is Affordable Housing?

In Europe, affordable housing provides access to housing for those who could not otherwise afford it

We assume one third of total household income should be spent on housing

In Europe “affordable housing” makes reference to public policies that foster access to housing for population segments that have difficulty owning their own homes. These population segments include young first-time buyers, key public workers and lower income workers. Affordable housing is an important tool in the governments’ redistributive economic policies. When we use the term “affordable housing” in the context of the UAE, it has a different meaning. In this case it means housing that the market provides at affordable levels to non-wealthy or non-high income population segments, affordable being accommodation on which such households spend a maximum of one third of their total income. To explain this further we segment the UAE population into households with varying earning power.

Name	Description
Labourers	These workers live in labour camps and are transported to and from work by employers. Housing in labour camps is provided as part of their remuneration package, and their wage is highly unlikely to provide for housing costs.
Key Workers	This group consists of people who carry out essential jobs without which the country would fail to operate effectively. The group includes maids, secretaries, taxi and bus drivers, shop assistants, mechanics and many others. People in this group earn AED 3,000-10,000 per month. Some of these workers are provided with housing.
Middle Income	This group consists of middle income professionals, both Emirati and expatriate. We class middle income as people who earn AED 10,000 - 17,500 per month including professionals such as junior to mid-level bankers, junior lawyers, professional personal assistants, sales people, certain government workers, advertising and PR professionals, amongst others.
High Income	This group includes the worker population that earns more than AED 17,500 per month or AED 210,000 per annum.
HNWI	This group consists of wealthy individuals, who may or may not have a regular salary.

From our discussion on affordable housing, we exclude the labourer sector, which is housed in labour camps. We also do not include the high income and HNWI sectors, as they can afford much more expensive housing.

Key Worker are the primary beneficiaries of affordable housing policies in the US and Europe

Key Workers would be the primary beneficiaries of affordable housing policies in the US and Europe. However, in the UAE Key Workers consist of expatriates who are in the country on a temporary basis. Instead, they live in dormitory style accommodation, save as much money as possible and remit a sizable amount of their income to their home countries. Many are from various countries in Asia, and culturally would prefer to live near their families, and aside from housing the cost of living in the UAE, including items such as schooling, would make it difficult for them to settle here. In the Dubai household statistics below, Key Workers are represented in large part by collective households, where expenditures are lower and remittances are higher. In the UAE's case, we do not look at Key Workers as a sector that will be targeted by the market for affordable housing.

Dubai Household Income Statistics

Classification	Number Households	Income Per Household 2007/08 (AED '000s)	Average Household Size	Income Per Earner 2007/08 (AED' 000s)	Overall Population 2007/08	% Overall Population 2007/08 (%)
National	25,457	670	5.9	324	150,940	9.8%
Arab	28,621	266	3.9	198	111,957	7.2%
European	17,968	448	2.5	382	44,721	2.9%
Asian	112,205	205	3.4	141	383,368	24.8%
Collective	40,525	198	5.2	38	211,158	13.7%
Labour Camps	NA	NA	NA	21	644,353	41.7%
	224,776		4.0		1,546,495	100.0%

Dubai Household Expenditure Statistics

Classification	Number Households	Total Household Income 2007/08 (AED Million)	Total Household Expenditure 2007/08 (AED Million)	Expenditure Over Income 2007/08 (%)	Total Household Remittances 2007/08 (AED Million)	Remittances Over Income 2007/08 (%)
National	25,457	17,056	9,741	57.1%	246	1.4%
Arab	28,621	7,613	5,369	70.5%	312	4.1%
European	17,968	8,050	4,644	57.7%	199	2.5%
Asian	112,205	23,002	14,665	63.8%	1,324	5.8%
Collective	40,525	8,024	3,524	43.9%	1,481	18.5%
Labour Camps	NA	13,531	8,352	61.7%	3,844	28.4%
	224,776	77,276	46,294	59.9%	7,406	9.6%

Source: Dubai Statistics Center, Household Expenditure & Income Survey Bulletin 2007/8

Note: Household statistics do not include household workers (e.g. maids), which will add approximately 60,000 to the population

In the UAE, we believe Middle Income workers need help to access suitable accommodation

This report focuses on Middle Income workers, who are required to ensure the corporate world in the UAE runs effectively. As the UAE's economy matures and demands more knowledge workers, we expect this segment to grow and represent a higher percentage of the overall worker population. In the table on UAE household statistics above, Middle Income workers would fall mainly in the Asian and non-national Arab households, and to a lesser extent in the European households.

Assuming a salary per Middle Income worker of AED 10,000 – 17,500, a household with 1.5 workers will have a monthly household income of AED 15,000-26,000 and an annual housing budget (at one third of overall

We calculate Middle Income workers have a housing budget that ranges from AED 40,000 to AED 105,000

A number of areas have become more affordable for Middle Income workers across the UAE as rents have fallen

If there is only one breadwinner in the household, the housing budget becomes very constrained

Some people are unwilling, rather than unable to pay higher rents

income) of AED 60,000 - 105,000. According to the UAE Ministry of Economy, the average monthly household income of UAE residents is AED 18,248. With only 3% of non-local households owning property compared to 76.6% of local households in Dubai according to 2006 dwelling statistics, the vast majority of Middle Income workers across the UAE will use their housing budget for rent, not mortgage servicing on owner occupied property.

Over the last year rental levels have become more affordable in a number of areas in Dubai including International City, Discovery Gardens and Jumeirah Lake Towers. In the past tenants were expected to pay upfront for one year's rent, which is a massive outlay for most people. Recently, payment terms in these areas have eased with some landlords asking for monthly payments. However, these payments are still in the form of post dated cheques, which still leads to anxiety for some tenants as bounced cheques are punishable by jail time in the UAE.

Anecdotally, we can see a move to these places as traffic in Discovery Gardens has increased dramatically, whilst in more expensive areas, such as the Marina, traffic has become more manageable. Two bedroom apartments are renting for AED 50-65,000 in International City, AED 75-90,000 in Discovery Gardens and AED 85-110,000 in Jumeirah Lake Towers.

In Abu Dhabi, rental levels are higher, as demand outstrips supply of modern apartments and villas. Also, Abu Dhabi has fewer development areas akin to Dubai's master developments, though a number are in progress. Cheaper areas are on the outskirts of Abu Dhabi including Al Bahia, Shahama and Khalifa B. Rents for two bedroom apartments range from AED 75-120,000. However, these locations are quite some distance from central Abu Dhabi and finding an apartment can be difficult.

Looking at these figures it seems there are a number of options for households in the Middle Income segment particularly in Dubai. However, those options become a little constrained if the household is at the lower end of the segment and only has one breadwinner giving a housing budget of only AED 40,000. The budget for a higher earning single worker household is reduced to AED 70,000.

At this point we need to distinguish between people who are unwilling to pay versus those who are unable to pay at certain rental levels. Due to the current economic malaise, the popularity of some of the apartments and villas in more affordable areas is likely boosted by the number of people unwilling to pay higher rents. We contend this is the case for two key reasons. First, some workers may be concerned for their job security; therefore they are looking to reduce their costs. Second, even though payment terms have become less stringent moving from one to multiple cheques, some workers may be reluctant to put so much money down on rental payments especially if their residency status is not secure.

2. How Do Cities Create Affordable Housing?

Numerous approaches have been taken to provide affordable housing in various countries. We provide case studies from London, Hong Kong and Monaco, following which we analyse the approaches and illustrate the implications for the UAE.

London

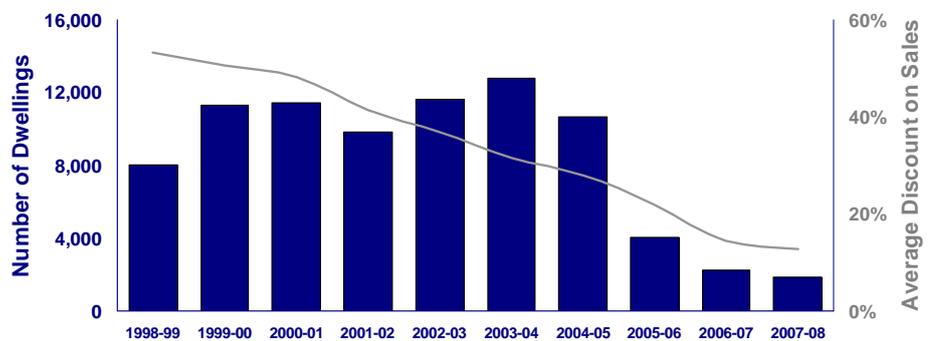
In London, councils and housing associations provide affordable housing

The 'London Plan' defines affordable housing as 'housing designed to meet the needs of households whose incomes are not sufficient to allow them to access decent and appropriate housing in their borough'. Affordable housing is available in the form of council estates and new social housing. Local councils provide council housing and social housing is provided and managed by housing associations.

Council housing is provided at below market rents

Council housing traditionally offers tenancies at below market rents to the working class. The number of council houses has been declining since the Thatcher government, which passed the 'Right to Buy' scheme in 1980. The scheme allowed council house tenants to purchase their council house at a discount to private housing market values, depending on the length of their tenure, which proved quite popular. The amount of discount has come down over the years.

Local Authority Stock Sold Through Right To Buy, 1998-2008



Source: *Communities and Local Government Housing Statistics 2008*

Demand for council housing is huge, with long waiting lists

Demand continues unabated. In 2005, there were eight households on the housing register for each letting made. In 2006, this jumped to 11:1. In 2008, overcrowding was higher in London than in the rest of England, with 6.6% of households overcrowded. Legislation prioritises households in vulnerable situations, such as families with dependent children or pregnant women. Households can stay on the register for years. In 2006 prospective tenants were expected to wait 11 years. The number of Londoners on social housing waiting lists has risen over the last 6 years by 50%, to over 300,000. Only two thirds of social homes needed in the capital are being built.

Key Workers in the public sector are targeted for affordable housing

Large portions of low to middle income workers require affordable housing. The 'Key Worker Living' scheme identifies certain public sector workers that would be eligible to apply for affordable housing. Key

workers include teachers, nurses and medical staff, social workers, police officers, fire fighters and other essential staff. As of 2009, annual salaries of key workers range between £17,000 (AED 102,000) and £30,000 (AED 180,000) after taxes with a median of £23,248 (AED 139,488).

Key Workers would not be able to buy in London at current prices

Using a third of the median salary for mortgage repayments, and assuming a 30 year mortgage with a 7% interest rate, the average key worker would only be able to afford a home worth £97,065 (AED 582,390). According to the Planning and Housing Committee, a typical entry-level property in London would cost approximately £250,000 (AED 1.5 million). The average London house price to household income is more than 6:1, compared to 4.7:1 national average. Affordable housing remains the only option.

A number of new funding schemes have started to help social tenants, key workers and first-time buyers

The government is addressing the affordability issue through additional funding schemes. There are several home ownership schemes that allow social tenants, key workers and first-time buyers to buy a share of their home and offer them various repayment options for the remaining equity. Buyers may purchase 25-75% of the property, with the ability to raise a mortgage on their acquired share. While the remaining share is retained by the landlord, the buyer will have to pay a subsidised rent for it. They may purchase the remaining share at a later stage. This practise is known as 'staircasing'.

Various other schemes are available. The 'Home Buy Direct' scheme, available to households earning less than £60,000 (AED 360,000) p.a., allows people to purchase a minimum of 70% of the property at market value using a mortgage and have an equity loan on the remaining 30%, which is interest free for five years and charged an interest of 1.75% thereafter (inflation linked).

The 'Rent to Home Buy' scheme offers short hold tenancies on newly built properties at 20% below market rent levels. The rent is payable for a limited and pre-defined period, after which there is the expectation that the tenant will purchase the property under another 'Home Buy' scheme.

A £5 billion budget is allocated for 2008-2011, with a primary objective of delivering 50,000 new homes

The Homes and Communities Agency and the Mayor control a £5 billion (AED 30 billion) budget to be invested between 2008 and 2011. The primary objective of the strategy is to deliver 50,000 affordable homes during this period. The second objective is to improve quality and design, employing green methods to upgrade new and existing homes and to regenerate deprived areas and estates. To date, 21 boroughs of the Greater London Area have agreed to deliver 23,154 homes while 12 boroughs are in negotiations to deliver 17,100 homes over the 3 year investment period.

London's housing solutions are clearly the responsibility of the government and borough councils

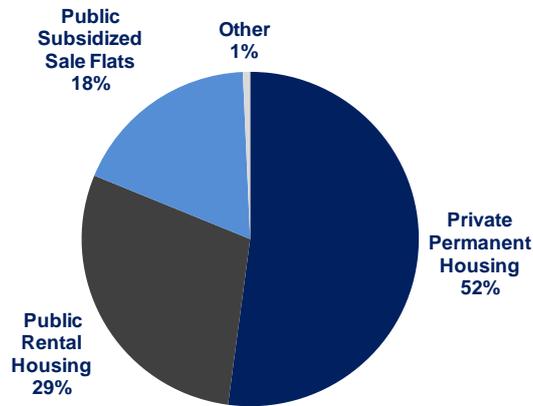
London's policy combines both rental and acquisition solutions. Where possible, the private sector is involved, but the government and borough councils are clearly responsible for ensuring the availability of affordable housing, especially for the poor and Key Workers.

Hong Kong

Hong Kong is densely populated with almost 7 million people living in approximately 1,100 square km. Prices are prohibitively expensive for low income urban households and public housing is a major component of

housing in Hong Kong.

Hong Kong Property By Occupancy, 2009



Source: Hong Kong Housing Authority Statistics, 2009

47% of Hong Kong's population live in public housing estates

To confront the challenges of high population concentration, Hong Kong implemented high-density zoning through the construction of high-rise buildings linked to an effective public transportation system. High-density zoning has been enhanced by land-sharing schemes where part of the development site is allocated for commercial space, which cross-subsidizes housing for low-income groups and increases the appeal to private developers. In Q1 2009, 60% of the Housing Authority's permanent residential flats were in the New Territories, 30% in Kowloon and 10% on Hong Kong Island. 47% of the population live in public housing estates and other blocks with some form of subsidy (rental and ownership schemes).

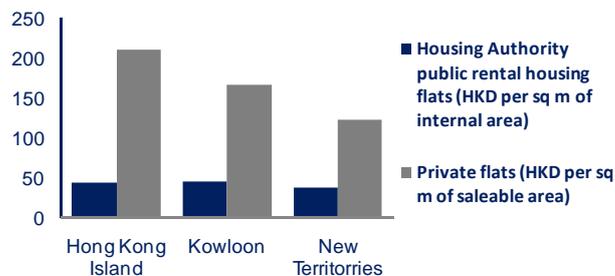
In the past, Hong Kong embarked on a huge public housing development program

Traditionally, the government relied on subsidising housing production where the government owns the land and development rights or subsidises the development of public housing, which created one of the world's largest public housing programs. The first housing program was implemented in 1953.

Recently, Hong Kong is concentrating on housing demand

Recently the government decided to rely increasingly on direct fiscal subsidies, a demand side approach. Rents in social housing are as low as 20% of private rents.

Average Monthly Rental Rates For Flats Below 70 sq. m.



Source: Hong Kong Housing Authority Statistics, 2009

Hong Kong's spending on public housing represents 5.5% of total public expenditure

In 2008/9, the Hong Kong government was forecast to spend HKD 18.3 billion (AED 8.7 billion) on public housing representing 5.5% of total public expenditure. In 1998/99, the government spent HKD 38.1 billion (AED 18.1 billion), or 14.3% of total public expenditure.

Hong Kong Public Expenditure On Housing, 1998-2009



Source: Hong Kong Housing Authority Statistics, 2009

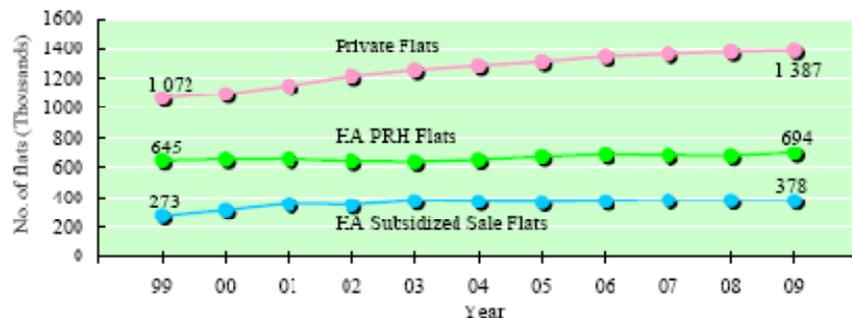
The waiting period for housing has halved in the last five years

The average waiting time for the 'waiting list applicants' to be allocated with public rental flats in the year 2008/09 was 1.8 years. The overall process takes around 3 years, half the time it required 5 years ago. The monthly income limit and asset limit for a 4-person household are HKD 15,800 (AED 7,500) and HKD 375,000 (AED 175,000) in 2009/10 respectively.

Hong Kong supports property acquisitions, but this has created market distortions

There are a variety of programs to support home ownership for low income urban households providing concessionary sale prices with discounts of up to 30-40% of market value. There are restrictions on re-selling an apartment in the secondary market for a period of 3-5 years. These schemes have created distortions, as subsidised buyers were incentivised to sell their apartments after the five year hold period for below market value. Developers have complained about this distortion, which holds prices down. As a result, production of subsidised apartments has trended downwards since 2003.

Breakdown of Residential Stock, 1999-2009



Source: Hong Kong Housing Authority Statistics, 2009 (Private, subsidised rental and subsidised sale apartments)

Hong Kong uses private capital where possible, but the housing programme is one of the world's largest

Hong Kong has used a social housing program infused with private capital to create a very large affordable housing infrastructure. Though social housing is available to the masses, a few unfortunate consequences have arisen due to the scope of the housing program. First, the private housing market has been distorted, which hinders the workings of an efficient market. Second, Hong Kong has created a large social housing structure, which will need to be continually serviced. Any changes to this structure are likely to create political upheavals.

Monaco

Monaco is predominantly serviced by workers from outside the Principality

Monaco is an ultra-rich Principality populated by the rich and famous. As such, it requires numerous workers to service its residents, but these workers are not able to reside in Monaco as it is prohibitively expensive. According to the employment office of Provence-Alpes Côte d'Azur, an estimated 40,000 French and 7,000 Italians commute to Monaco daily. Monaco has a resident population of approximately 32,000 people.

Many young workers come to live for a short time in the region mainly with a focus on making money purely for leisure activities

Towns within a 10-15 km radius of Monaco such as Eze, Cap D'Ail, Villefranche and Beausoleil provide accommodation for workers. More affluent workers will be able to buy properties in these areas. Due to the Riviera's appeal, a number of young people come to the area to work in lower income jobs, such as working on boats, and are happy to live in rooms rented in houses and apartments. Monaco's minimum wage is equivalent to the French minimum wage of €8.27 (AED 45.21) plus 5% for additional travel costs.

Nearby towns provide accommodation for a fraction of the cost of Monaco

Property brokers indicate that Beausoleil is 10-15% cheaper than rival towns because it is off the tourist trail. Recent listings show a 30 sqm apartment and a two bedroom 75 sqm apartment priced at €145,000 (AED 792,670) and €420,000 (AED 2.3 million) respectively. The same two bedroom apartment in Monaco would fetch nearer €5 million (AED 27.3 billion). On minimum wage, a family would only be able to rent in this market.

Monaco is minimally involved with social housing

Monaco also partners with neighbouring towns to build residential properties, such as the Saint Antoine quarter in Cap D'Ail, where a brownfield site was developed into a residential area with 88 apartments including 12 for social housing.

This is a market based solution. However, Monaco benefits from the lure of a location in which young people provide cheap labour and are not looking to save their income. Therefore, much of the earned money is spent in the Principality or neighbouring areas.

Implications for the UAE

Emiratis have a number of options for making housing more affordable

For Emiratis, various options are available. The Sheikh Zayed Housing Programme provides grants and loans to a maximum of AED 500,000. In Abu Dhabi, allocation of land to Emiratis is handled by the Abu Dhabi municipality. In Ras Al Khaimah, the Saud Housing Programme allocates land plots for housing projects, especially focused on Emirati youth. In Dubai, the Mohammed bin Rashid Housing Establishment (MRHE) has been set up to provide housing for Dubai citizens with a one-stop shop. Multiple options are available including granting of residential plots of land, government houses and ready-made houses, maintaining and

<p>Boom times ignored the need for accommodation for Middle Income workers</p>	<p>expanding existing houses and granting housing loans.</p>
<p>Developers of affordable housing should focus on the rental market</p>	<p>For others, developments in the UAE have focused on high end projects to cater for the High Income or HNWI brackets leading to high housing costs. In addition, during the boom, construction costs rose steeply, there was a lack of central planning that considered overall land use and fit with the population demographics, and developers looked to build monuments to themselves. Planning was effectively delegated to master developers. We explore these ideas further in our report on Dubai Real Estate Opportunities available on the Isthmus Partners website (www.isthmuspartners.ae).</p>
<p>A market based approach would suit the UAE</p>	<p>From the cases above, we have seen a number of approaches to building affordable housing. In the UAE, affordable housing should focus on developing apartments and villas which are within the rental range of the Middle Income worker segment. Due to market dynamics, the transient nature of workers and local preferences, it seems unjustified to build affordable housing for this segment to buy.</p>
<p>Land needs to be cheap and transportation links need to be good</p>	<p>Also, a market based approach is better suited to the environment, as a large portion of the Middle Income workers are expatriates. The UAE may need to provide affordable housing, but it is not obligated to provide capital assets to its non citizens.</p>
<p>The UAE needs better central planning and policies for affordable housing</p>	<p>With market based rental accommodation in mind, the UAE can improve supply through provision of cheaper land to master developers, which is well connected to the main transport networks. The higher end of the Middle Income segment will be able to buy or rent cars. However, the lower end would benefit from transport that links to the newly created Metro system, which can be achieved through good bus services.</p>
<p>More sharia compliant financing may help people buy homes</p>	<p>Planning in the UAE needs to ensure the development of affordable housing either by providing land parcels for inexpensive projects, or by ensuring master developers build a certain portion of affordable housing within their developments.</p>
<p>Mortgage rates are likely to concern potential buyers</p>	<p>For those that are intent on buying their homes, creative financing solutions may include partial equity purchases, with rent due on unowned portions. In this market, we would expect both the acquisition and rent to be at market rates. This may help mop up some of the oversupply, and will be more compliant with sharia financing rules ensuring less use of debt and a greater sharing of risk.</p>
	<p>Buyers may also be put off by the high mortgage rates in the UAE. As many buyers are likely to be expatriates, who do not have permanent residency status, banks are likely to price in flight risk which may ensure mortgage rates remain high.</p>

3. A Worked Example

We looked at the cost of developing affordable housing, using rental prices as an anchor to our figures. We produced two scenarios: the first focused on a household with a single monthly income of AED 10,000

leading to an annual housing budget of AED 40,000. The second focused on a household with the average monthly UAE household income of AED 18,248 leading to an annual housing budget of approximately AED 73,000.

We assume an investor would receive a net yield of 5%

We assume that the developer builds 100% for an institutional investor who will own and rent the property. We assume the investor requires an expected 5% net yield on completed property for this sector. Although 5.0% net yield may seem low given current mortgage rates in the UAE, we are assuming a normalised credit situation where yield expectations are realistic. A 5.0% net yield for residential units with the assumptions we further detail below would be a good yield compared to European markets, especially in a non-tax environment.

Net operating income assumes occupancy of 85% and service charges of 20% of gross rent

For an investor's net operating income (NOI) forecast we assume a projected average occupancy of 85% and a non-chargeable to tenant operating expense (service charges) of 20% of gross rent, which translates into a AED 10 and AED 12 per sq ft NSA charge for the first and second scenarios respectively. Service charges include costs for cleaning and maintaining a property, maintenance charges, scheduled tenant improvements, insurance, etc. This is lower than service charges currently reported in Dubai and which are subject to controversy, but affordable housing will require less work: less cleaning due to smaller communal areas, no porters, fewer maintenance staff, less piping to maintain, as gas will not be connected and fewer bathrooms lead to less plumbing, etc. We also assume broker fees are paid by tenants.

Apartments will be smaller with fewer bathrooms, and smaller rooms

Our two scenarios look at two bedroom unfurnished apartments with an area of 800 sq ft for the smaller budget and 1,200 sq ft for the larger budget. 800 sq ft may seem small for the UAE; however, that would be ample space for an affordable apartment. To put this size into perspective, two bedroom apartments in London range in size from 650 sq ft to more than 1,000 sq ft. Much of the space is clawed back from having fewer bathrooms, less hall space and smaller bedrooms. If two bedroom apartments have an area of more than 1,000 sq ft, they become candidates for redevelopment into three bedroom apartments, as more value can be realised from the extra room.

We assume a 20% developer profit margin

We further assumed a developer profit margin of 20%. We expect profit margins have tumbled from higher rates, which were forecast by some developers as high as 100%. More reasonable rates are expected since the market correction and some developers have cited margins as lean as 8-12%.

We distinguish between total build and total project costs. Total project costs include the cost of land, all construction, design and consulting costs, finance costs and the developer's overheads related to a project. Total build costs include all construction, design and consulting costs.

We calculate affordable housing needs to be built for a total project cost of AED 440 to AED 540 per sq ft BUA

From our calculations, the above assumptions lead to total project costs of approximately AED 520 and AED 630 per sq ft NSA for the first and second scenarios respectively. Using a relatively high building efficiency ratio of 85%, we calculate total project costs of approximately AED 440 and AED 540 per sq ft BUA for the first and second scenarios respectively. We would expect affordable housing to have higher efficiency ratios, as less communal facilities will be provided, and

common space should be minimal.

From projects we have looked at, we have seen total project costs range from approximately AED 590 per sq ft BUA in Sports City to over AED 1,200 per sq ft BUA in The Waterfront. An initial study for a project on Hamdan Street, Abu Dhabi gave a total project cost of approximately AED 1,600 per sq ft BUA, where the price of the land contributed more than a quarter of the cost. However, all of these costs are based on contracts signed or feasibility studies carried out before the market correction. Since then, construction and material costs have fallen significantly, and we expect contractors are more likely to take projects where total build costs are in the AED 250-400 per sq ft BUA range, especially for mid- to low-level finishes. Costs can be kept down through the provision of less parking, fewer basements and fewer communal features such as gyms, pools, concierge services, etc. Also, more use can be made of prefabrication and more rapid construction techniques such as the use of Insulated Concrete Form (ICF). Design and consulting costs, land acquisition and overheads would take up the remaining total project costs.

Land costs need to come down in proportion with the reduction in construction costs

Land costs will have to show proportional reductions with construction costs. In Dubai and the Northern Emirates, this is more likely to prove achievable, but Abu Dhabi land prices may still command premiums except for locations some distance from the city centre.

Of course, all of the above assumptions can be sensitised. For instance, if we look at a range of developer profit margins from 10% to 30% and net yields from 3.5% to 6.0%, we can calculate total project costs range from AED 320 to AED 710 per sq ft BUA and AED 390 to AED 860 per sq ft BUA for scenarios one and two respectively.

The table below illustrates the total project cost for the 800 sq ft NSA apartment in scenario one. With a developer making a 20% profit margin and an investor/landlord requiring an expected 5% net yield on the property, the total cost is highlighted at AED 442 per sq ft BUA.

We have run a sensitivity analysis on all our numbers

Scenario One - Total Project Costs (Per Sq Ft BUA)

		Developer Profit Margin				
		10%	15%	20%	25%	30%
Net	3.5%	710	671	631	592	553
	4.0%	622	587	553	518	483
Yield	4.5%	553	522	491	460	430
	5.0%	497	470	442	414	387
	5.5%	452	427	402	377	352
	6.0%	414	391	368	345	322

Scenario two project costs are highlighted in the table below, again with a 20% profit margin for the developer and a required 5% net yield for an investor giving a total project cost of AED 538 per sq ft BUA.

Scenario Two - Total Project Costs (Per Sq Ft BUA)

		Developer Profit Margin				
		10%	15%	20%	25%	30%
Net Yield	3.5%	864	816	768	720	672
	4.0%	756	714	672	630	588
	4.5%	672	635	598	560	523
	5.0%	605	571	538	504	471
	5.5%	550	519	489	458	428
	6.0%	504	476	448	420	392

Feasibilities will have to be carried out at prevailing rates

As each of the above sensitised figures are determined by market forces, any feasibility studies would have to take into account the prevailing rates at the time of investment.

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