



# Mirror, Mirror on the Wall

An Evaluation of Properties and Stocks in the UAE

# Executive Summary

## - Real Estate's Year so far

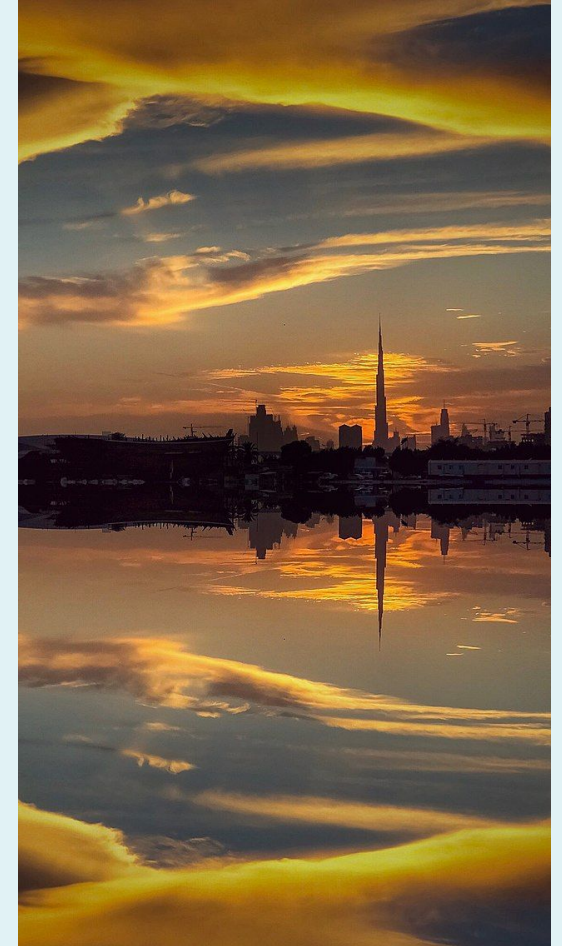
As has been noted constantly this year, real estate has performed exceptionally well in 2023. At first glance, it may appear that investing in properties is the most lucrative option, especially this year.

## - Luxury vs Mid Market Analysis

When digging a little deeper, mid market properties have returned greater rental yields almost entirely across the board (post-COVID). However, looking at the total return of properties as a whole, the picture flips and luxury dominates.

## - Stock Comparison

The two main indexes, DFM and ADX, have outperformed Dubai residential prices overall post-COVID, despite a more granular view of individual stocks and communities failing to paint a clear picture about which asset class is superior. An alternate strategy for investors may be to invest in real estate stocks, thereby hedging against the pitfalls of investing in properties or non-real estate securities.



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# Real Estate's Year

**"There are risks and costs to action. But they are far less than the long range risks of comfortable inaction."**

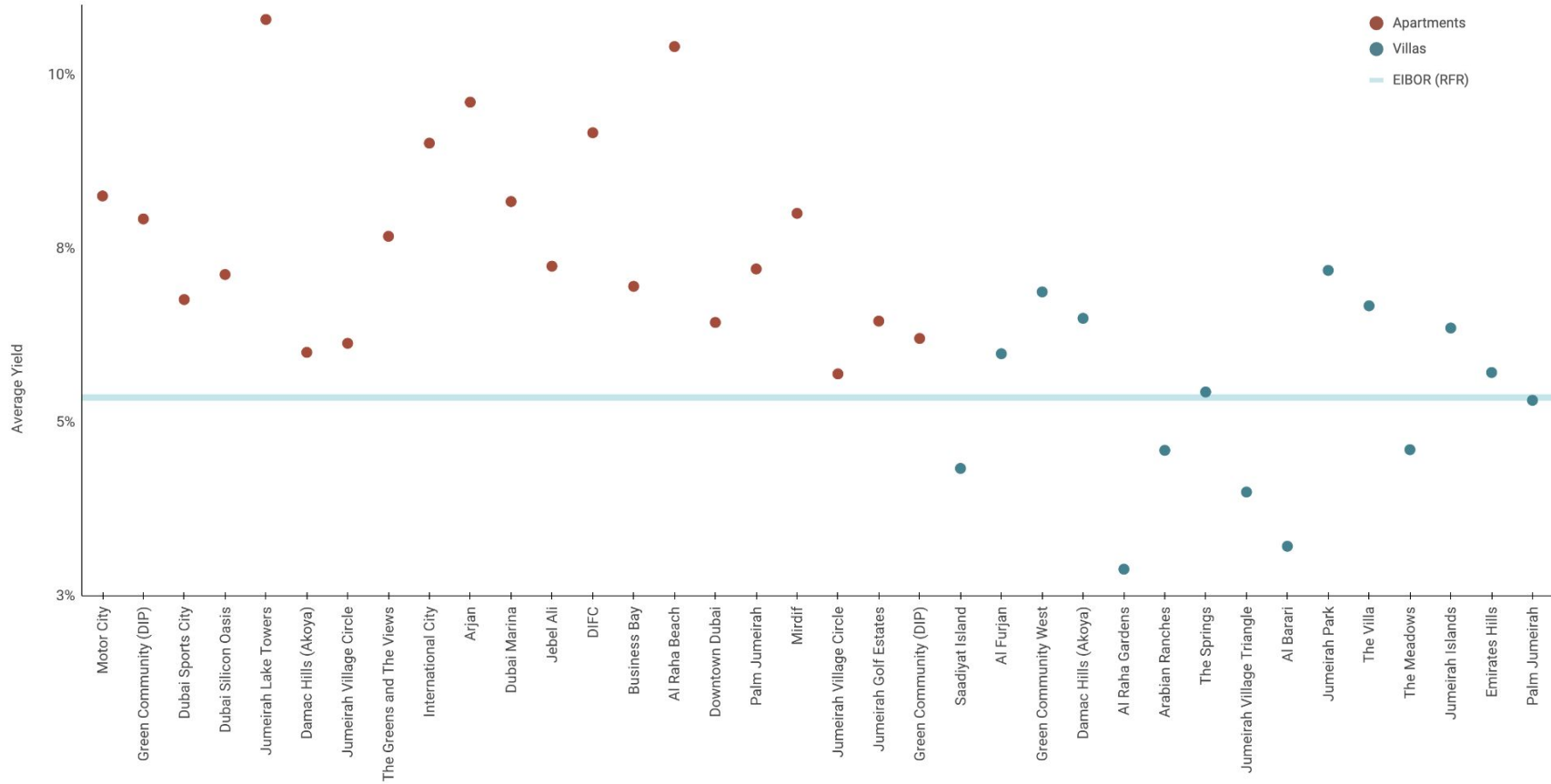
- John F. Kennedy



# Apartments Steal the Show in 2023

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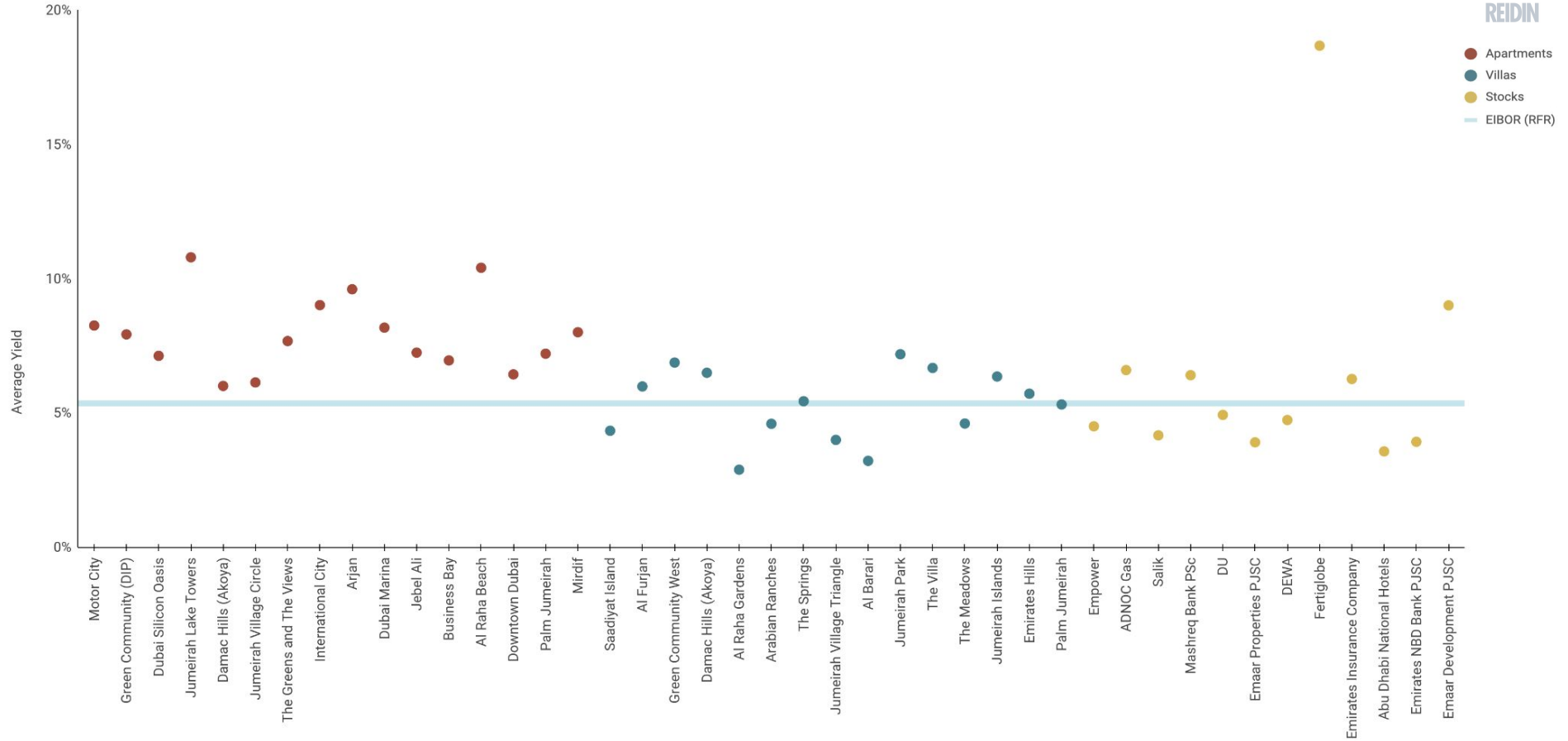


Looking just at rental yields for this year, we see that apartments are clearly superior. All apartments seem to have an average yield above the risk free rate (RFR, or EIBOR), while villas seem to be more of a mixed bag. Some communities (like Al Furjan and Jumeirah Park) comfortably exceed the RFR, while others like Springs, Palm Jumeirah, Meadows and Arabian Ranches are much closer to or below the RFR.

# Apartments Steal the Show in 2023

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Adding some stock samples into the picture further strengthens the yield case for apartments in the mid market space (although net yields will be lower) In the capital markets, newer listings like Fertiglobe, ADNOC Gas and the like demonstrate the case for strong yields, even as their asset prices have risen.

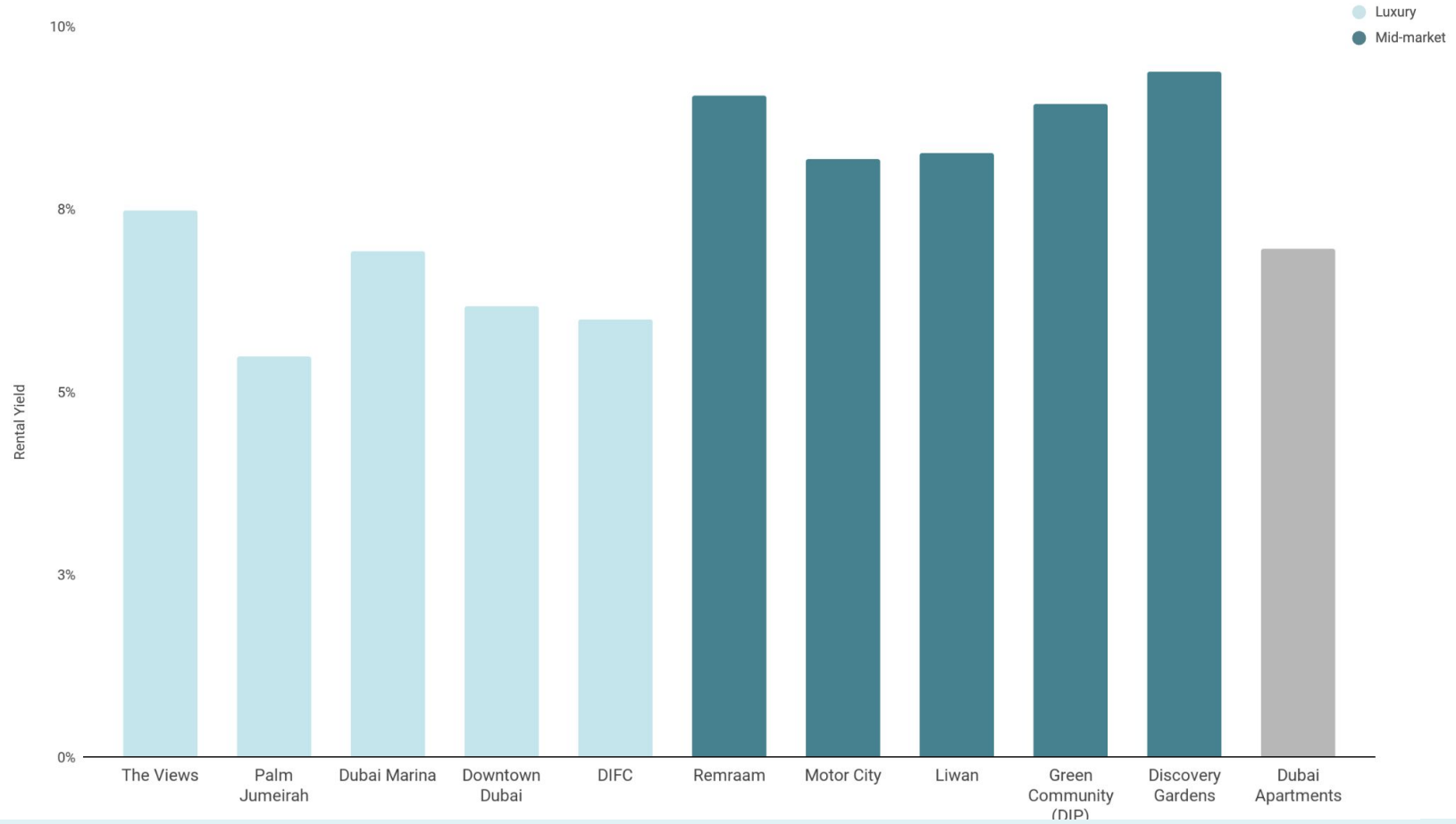
# Market Breakdown

**"Opulence is the law of the universe, an abundant supply for every need if nothing is put in the way of its coming."**

– Ralph Waldo Trine



# Mid Market versus Luxury Average Rental Yields - Apartments



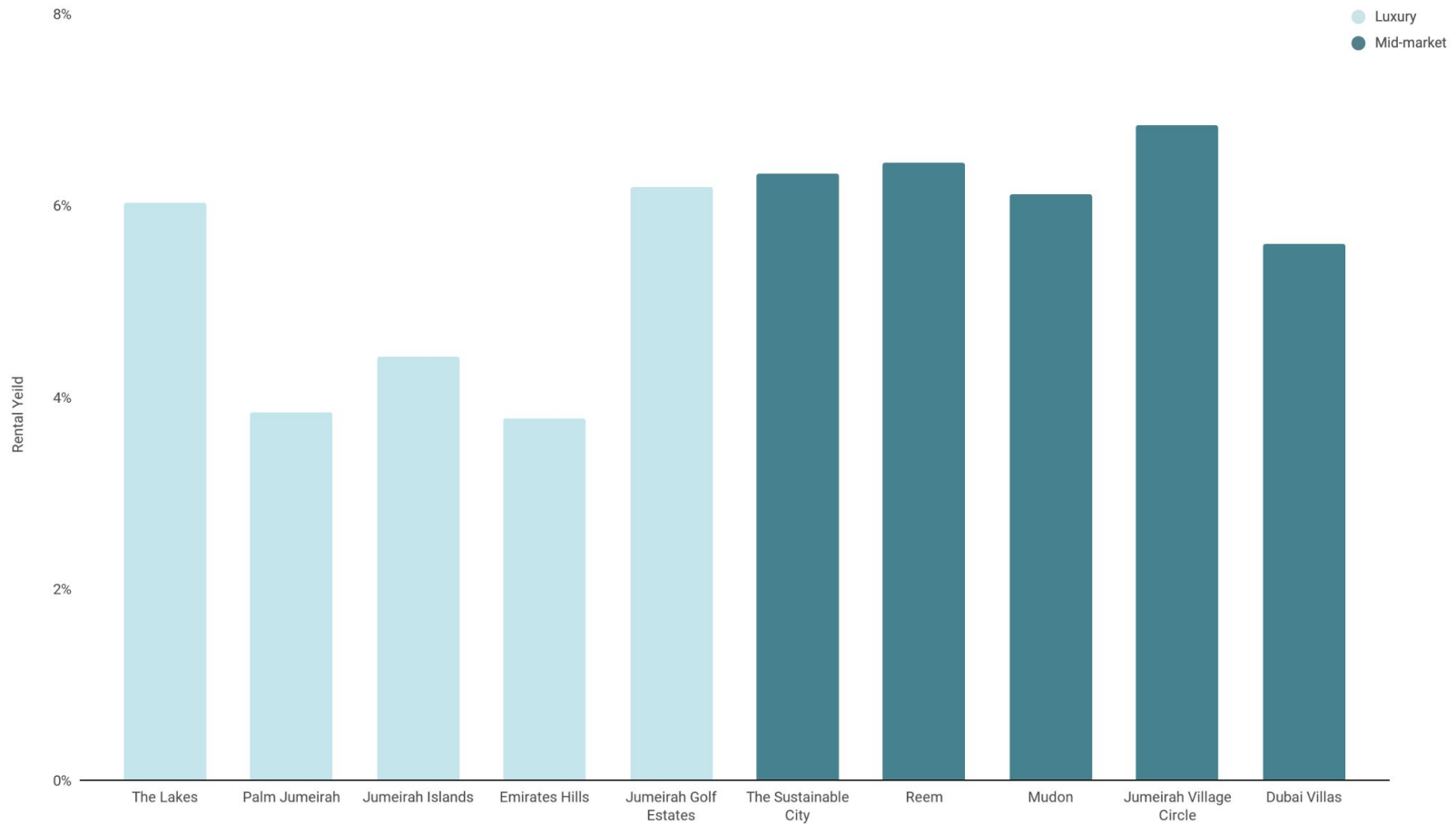
Looking at the average rental yields for the post-COVID period, mid market apartments seem to consistently outperform their luxury counterparts, by a mean premium of 3%.



# Mid Market versus Luxury Average Rental Yields - Villas

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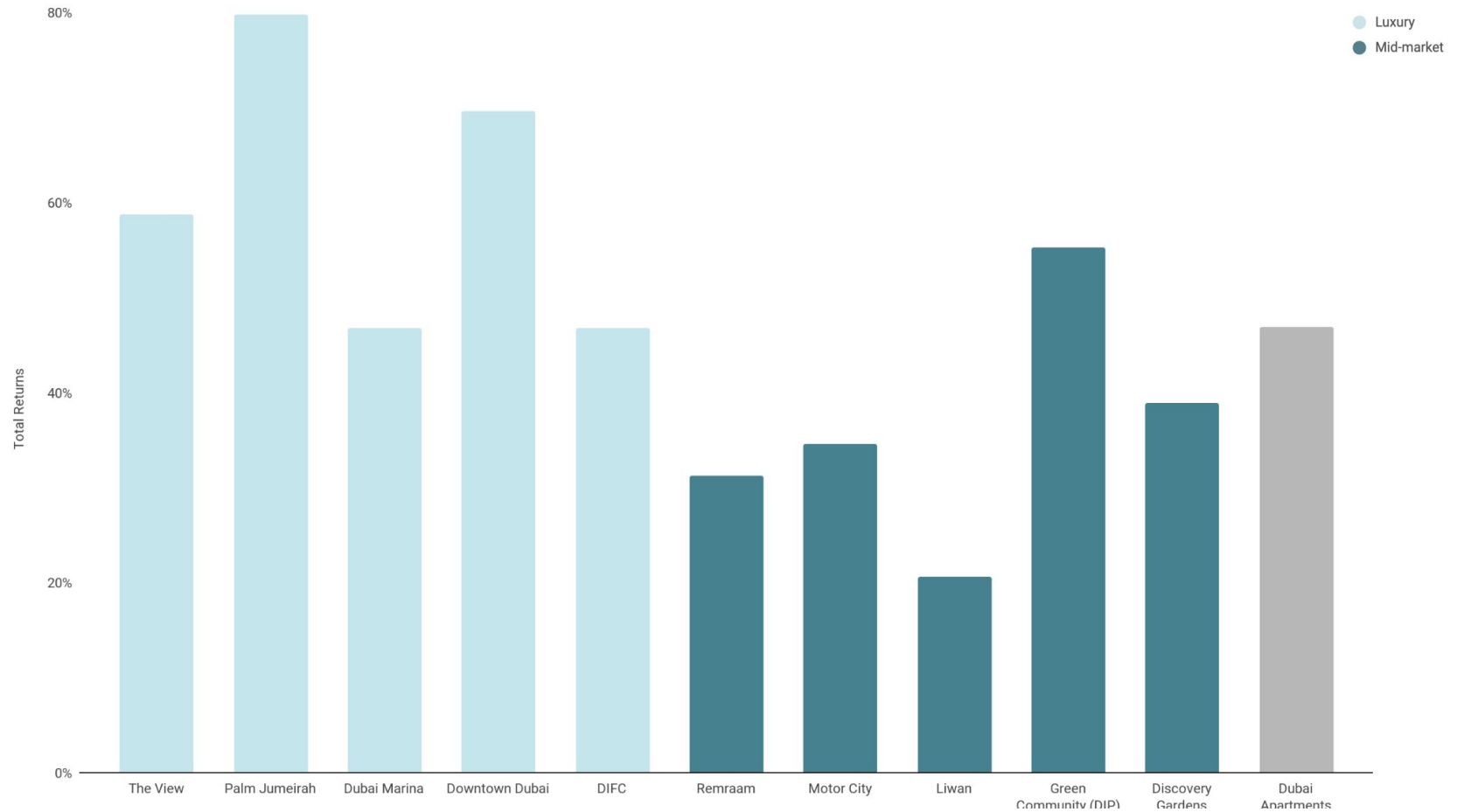


This relationship is not as pronounced in villas. Jumeirah Golf Estates and The Lakes have outperformed by luxury standards, while The Springs and Meadows are lower relative to their mid market peers. However, we can still see the highest-valued luxury communities in Palm Jumeirah, Jumeirah Islands and Emirates Hills (all of which average prices per square foot nearing 2000 AED or above) clocking in lower yields which is the norm in the luxury space.

# Mid Market Versus Luxury Total Returns Post-COVID (Apartments)

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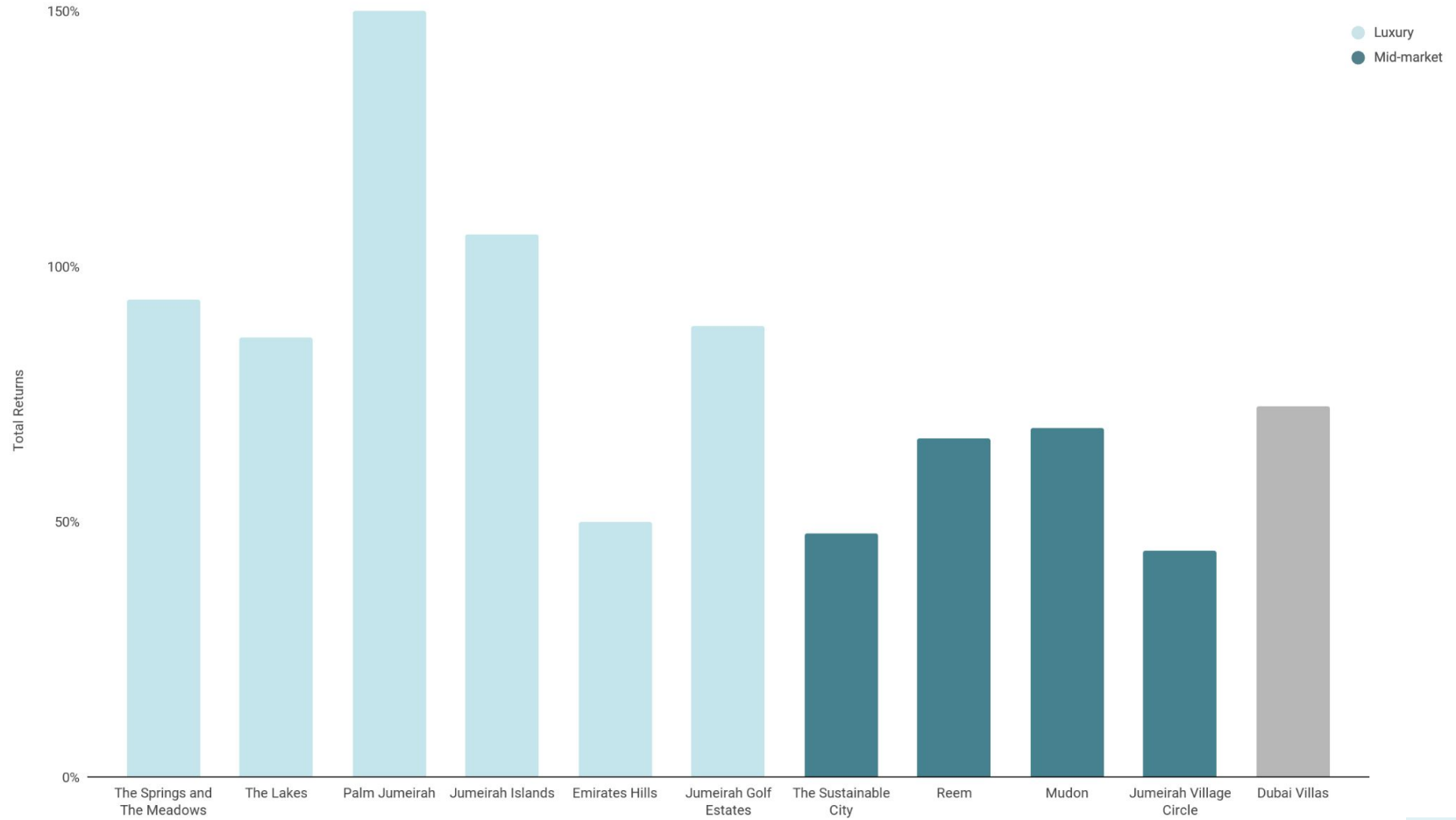


On a total return basis, there is no surprise to see that the luxury segment has dominated the real estate space, given the price action dominance in this cycle. Of course, there are some exceptions, like Green Community being an outperformer for the mid market.

# Mid Market Versus Luxury Total Returns Post-COVID (Villas)

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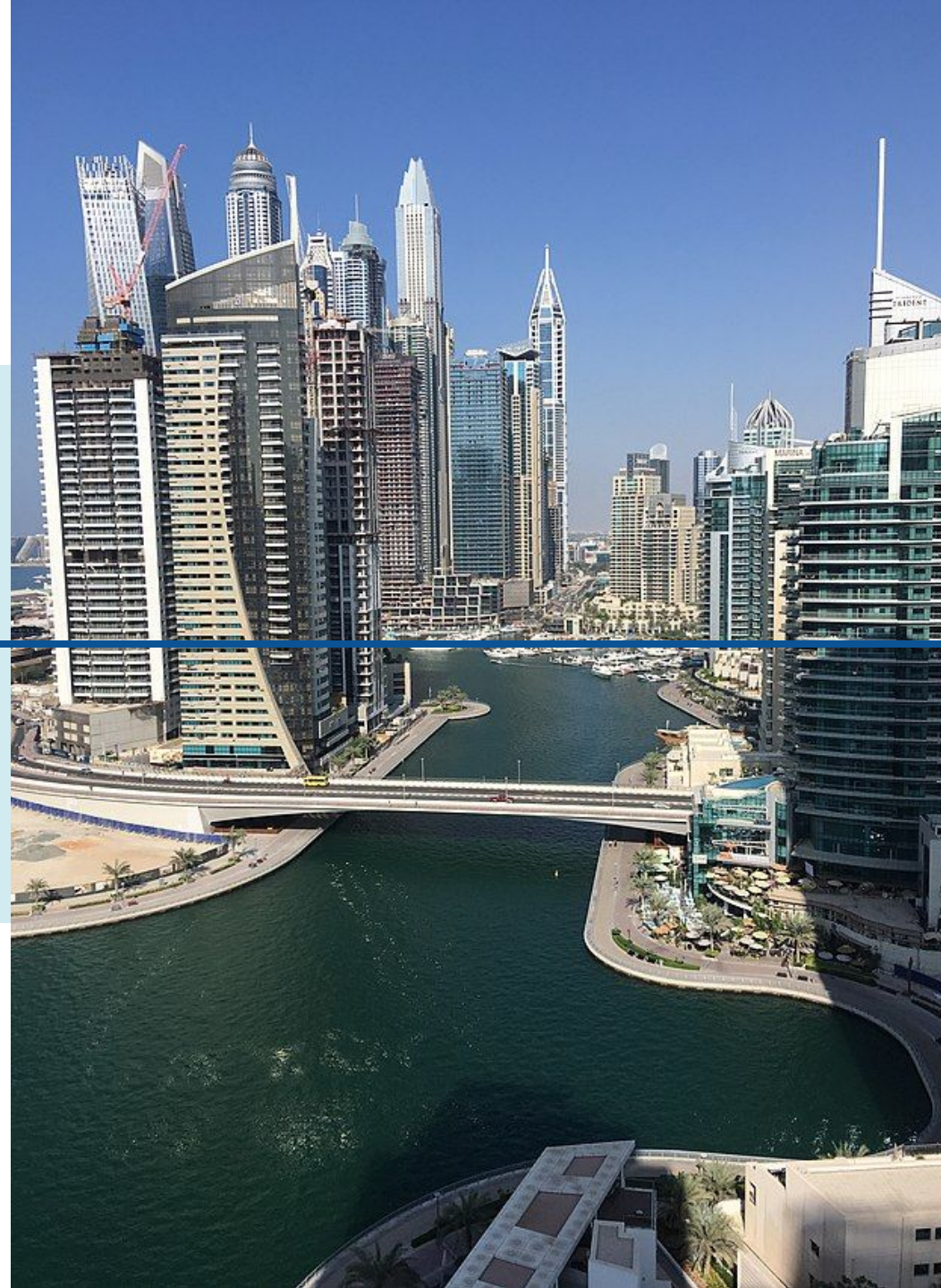


Villas paints a similar, if not more pronounced picture, especially that of Palm Jumeirah's meteoric price appreciation of late, which has drastically boosted its total return percentage to almost 150%.

# Capital Markets Comparison

**“Know what you own and why you own it.”**

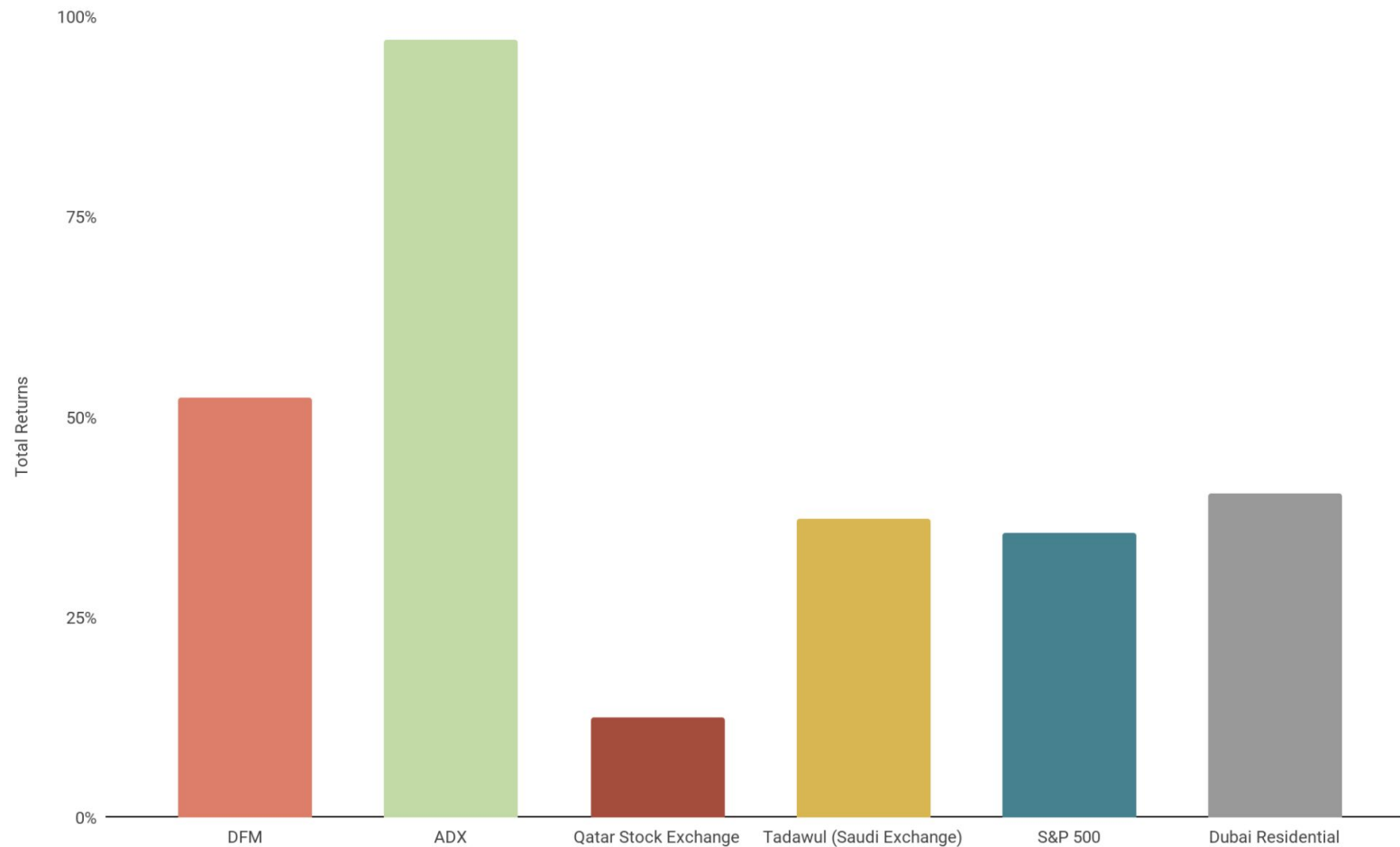
-Peter Lynch



# Stocks versus Real Estate - Post-COVID

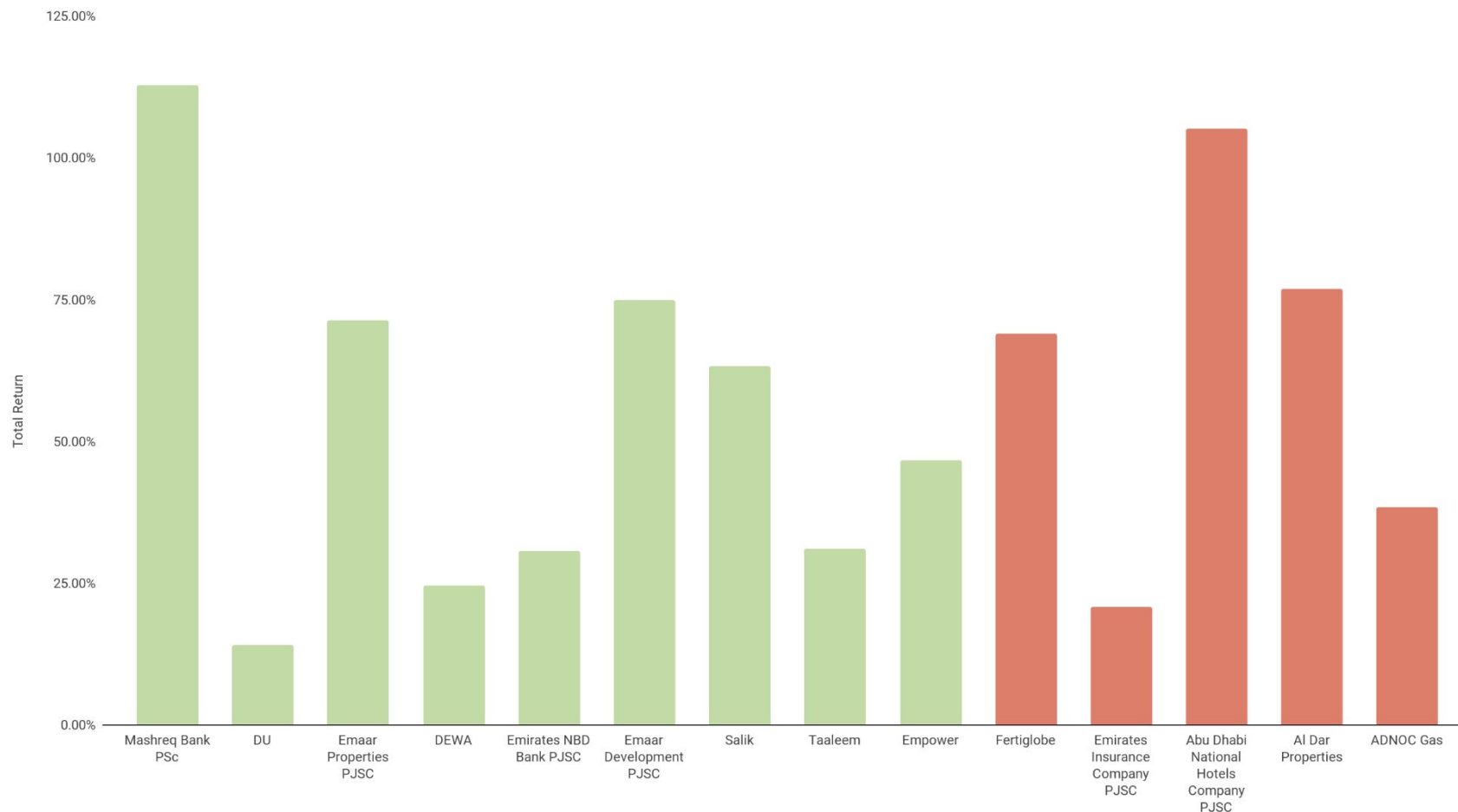
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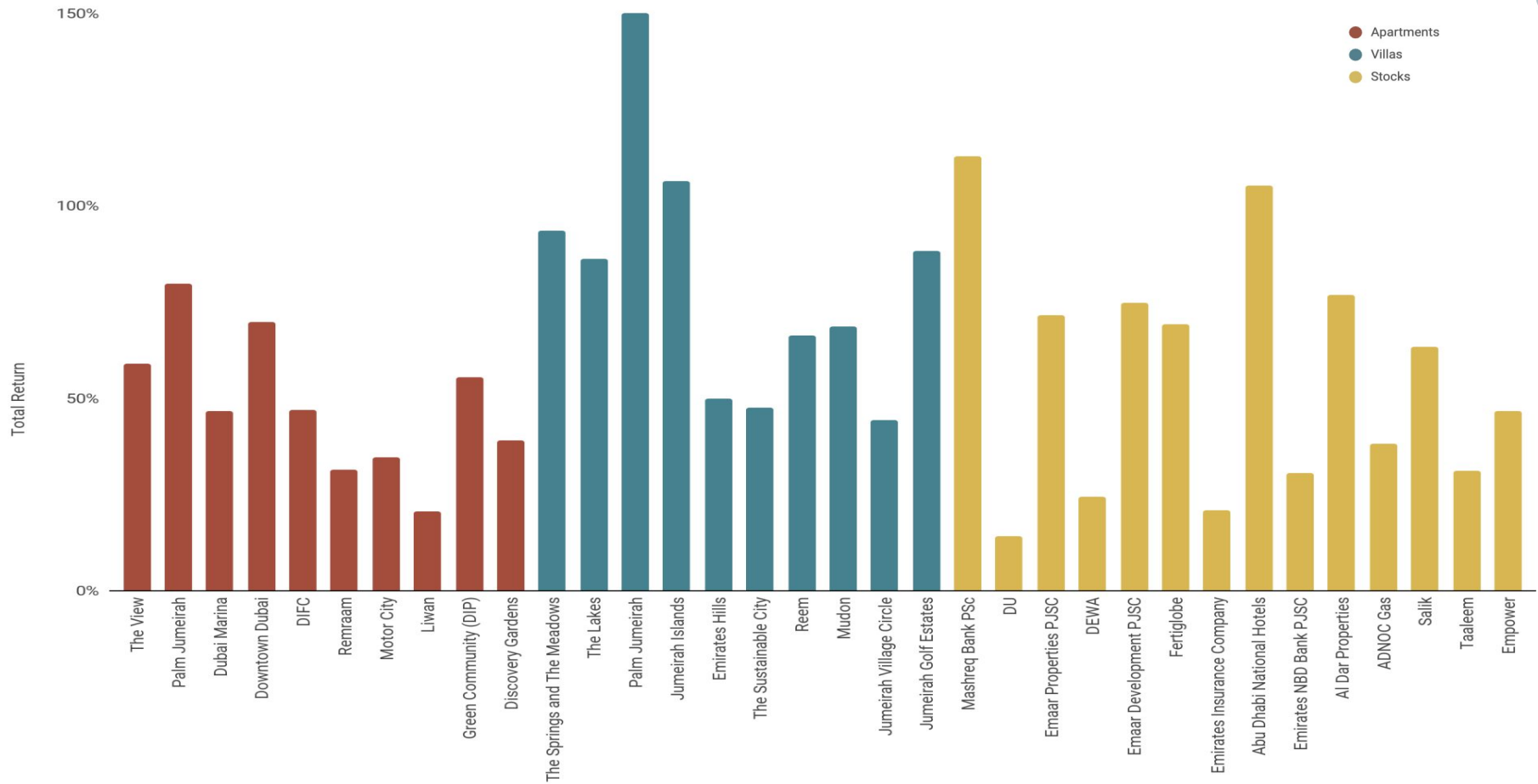
When viewed holistically, we see that both the ADX and the DFM outperformed regional market indexes, like the QSE and Tadawul, as well as international indexes like the S&P 500. The standout performance has been that of the ADX, cementing its status as the “capital of capital”.

# The Granular View



Looking at a sample of stocks and their total returns post-COVID paints a mixed bag. Real estate stocks seem to perform consistently well along with banks and tourism (Abu Dhabi National Hotels). Some of the newly listed companies like Salik and Fertigllobe have also yielded significant returns for investors, demonstrating the appetite for capital market assets.

# Stocks versus Real Estate - Post-COVID

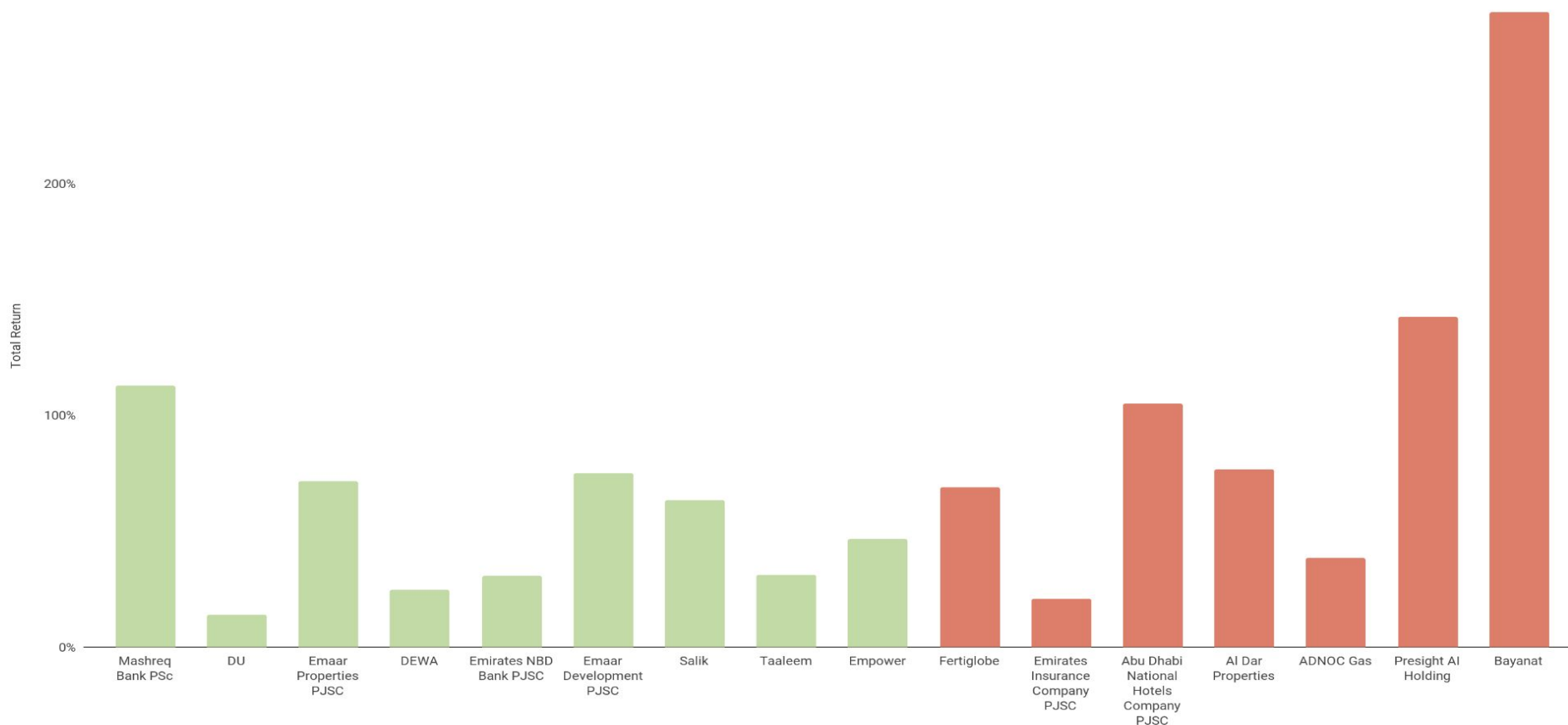


Looking at individual samples, villas seem to have performed better on average than stocks post-COVID. Overall, however, comparing the total returns of apartments, stocks and villas post-COVID again returns disparate results with little clarity as to what the best investment is. Whilst the luxury space has clearly been the winner, it is pertinent to note that returns from capital markets stocks have performed strongly, despite their being little light on this space.

# The Reasons Behind ADX's Dominance

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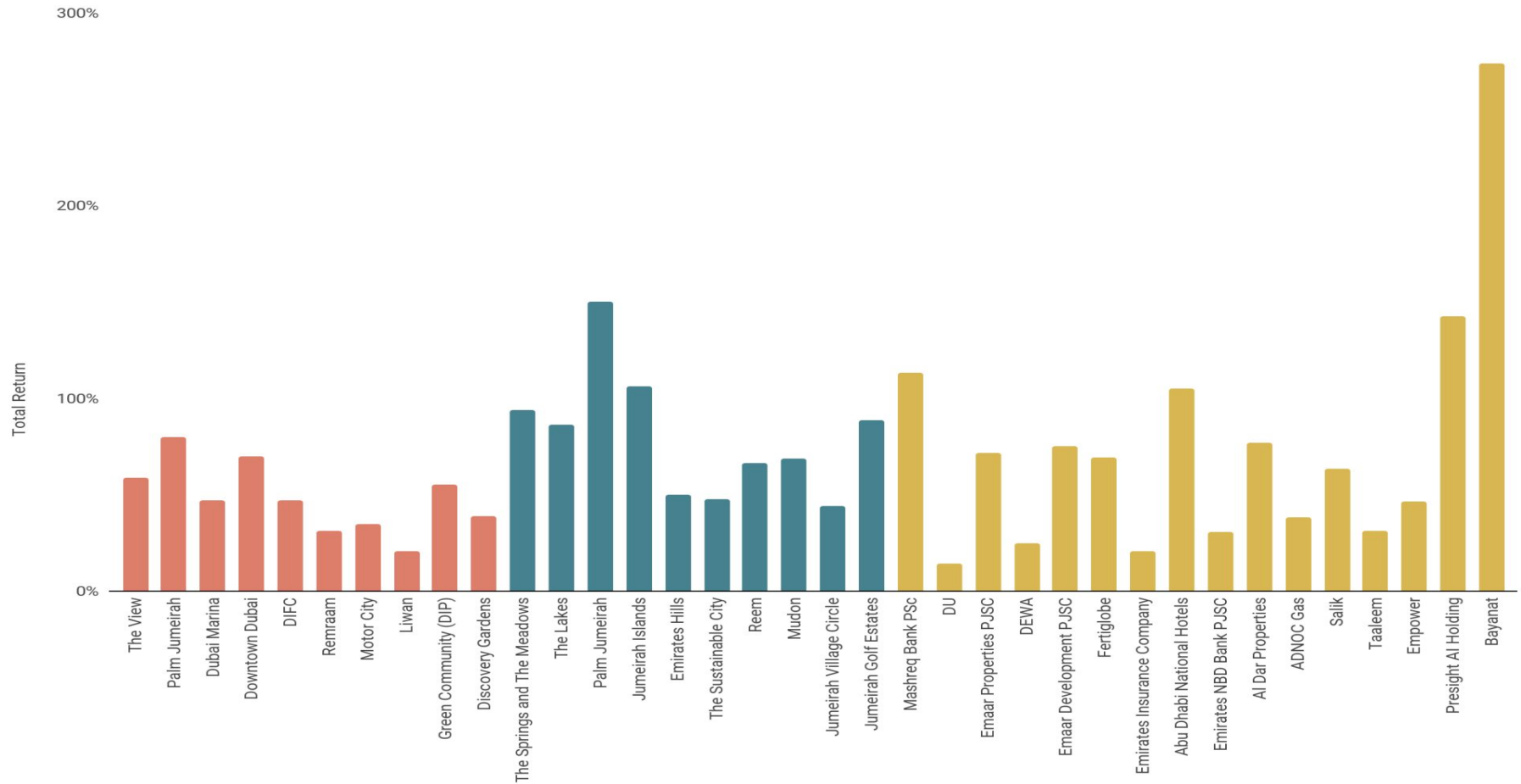
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ADX has a few stocks listed that have performed exceptionally well. Some notable examples include Bayanat and Presight, which have seen 273.64% and 142.54% appreciations respectively (as of July 3rd), far exceeding the other stock samples.



# The Reasons Behind ADX's Dominance



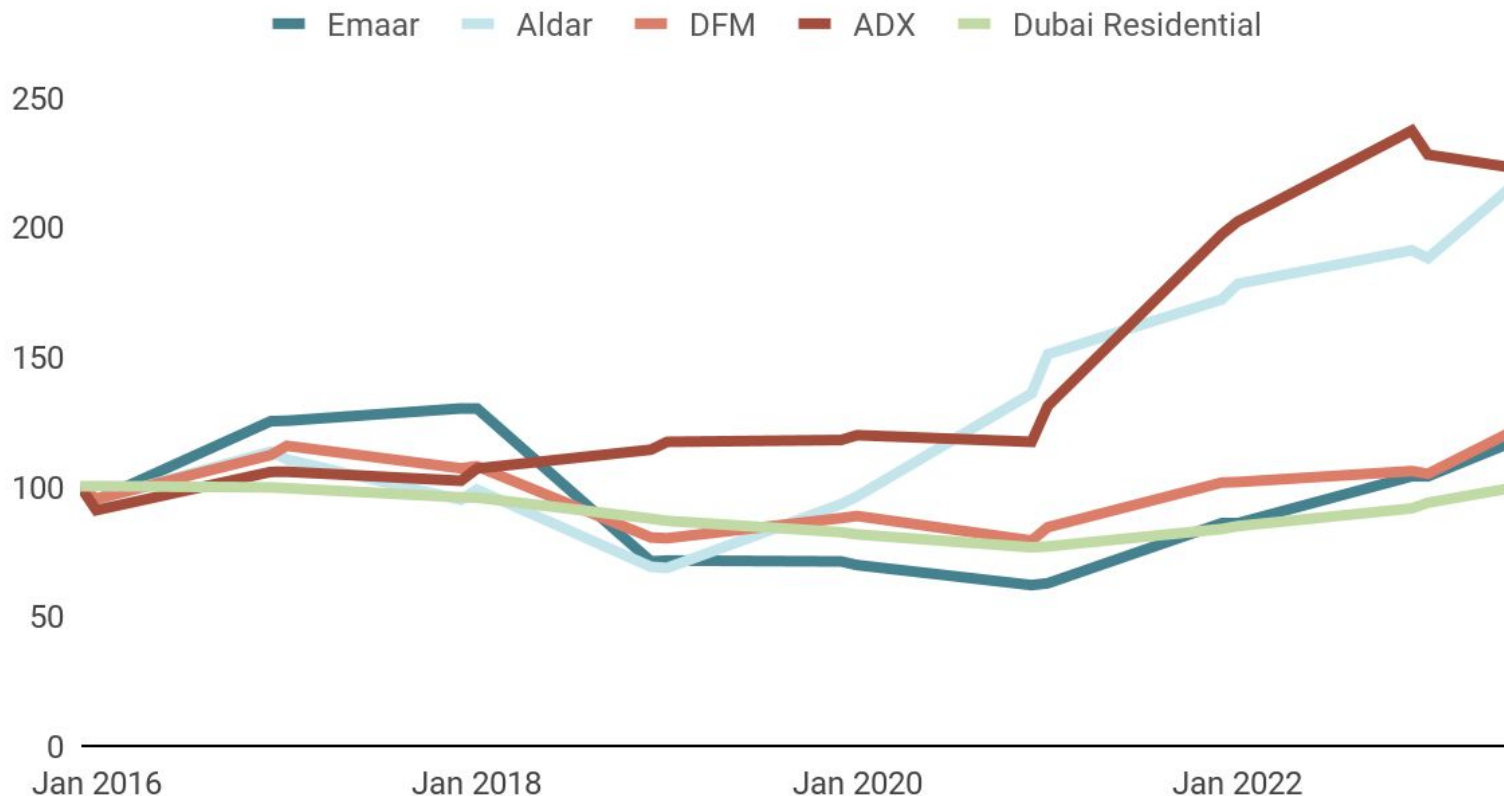
Adding Bayanat and Presight to the overall asset comparison proves how anomalous their returns have been. Presight rivals, while Bayanat exceeds, the best performing real estate sample since January 2020 (Palm Jumeirah Villas, which is an anomaly in and of itself) despite only being publicly listed in 2022 and 2023 respectively. International Holding Company (IHC PJSC) is another extreme anomaly, with a total return of 2894.03% over the same time period.

# An Alternate Strategy - Buy Real Estate Stocks

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## Price Index Performance (2015 - July 2023)



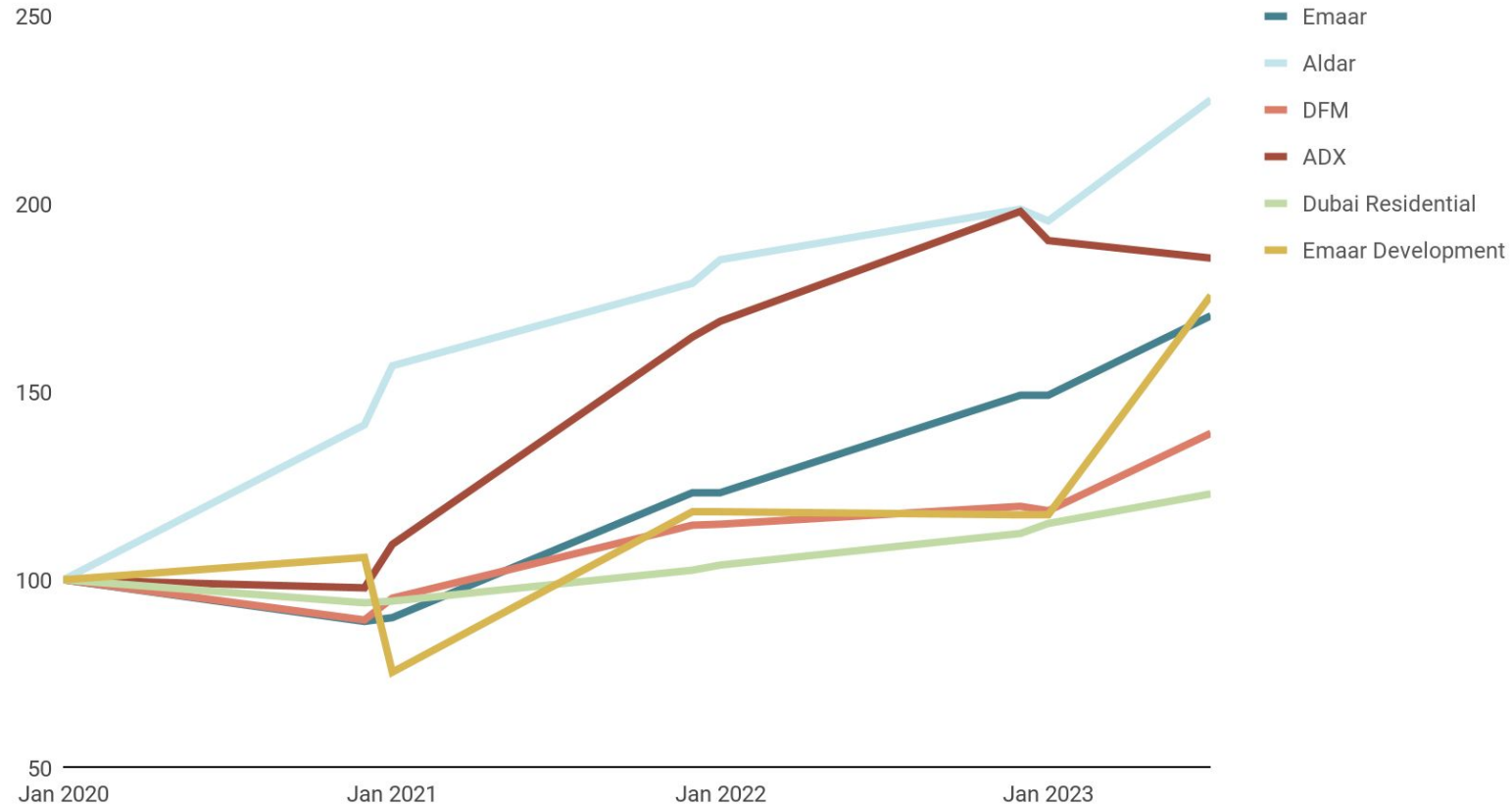
Looking at an index of price performances since 2015 returns a mixed bag. On the one hand, ADX has skyrocketed as Dubai Residential prices have retreated slightly. On the other hand, Aldar Properties has matched the ADX's stellar performance, while the DFM has shown relatively modest growth over the same time period (23% to ADX's 122%), despite being at its highest since December 2015.

# An Alternate Strategy - Buy Real Estate Stocks

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Index Performance (Jan 2020 - July 2023)



Looking at the price index post-COVID, this the case in favor of real estate stocks becomes stronger. Aldar is now clearly the standout performer (in spite of the ADX’s aforementioned anomalous components), while Emaar Properties and Emaar Developments share prices look to be poised to also surpass ADX. More importantly, from an investor’s standpoint, the case for investing in real estate stocks over real estate seems to have been the “smart money move” for investors.

# Conclusions

## - Real Estate's Year so far

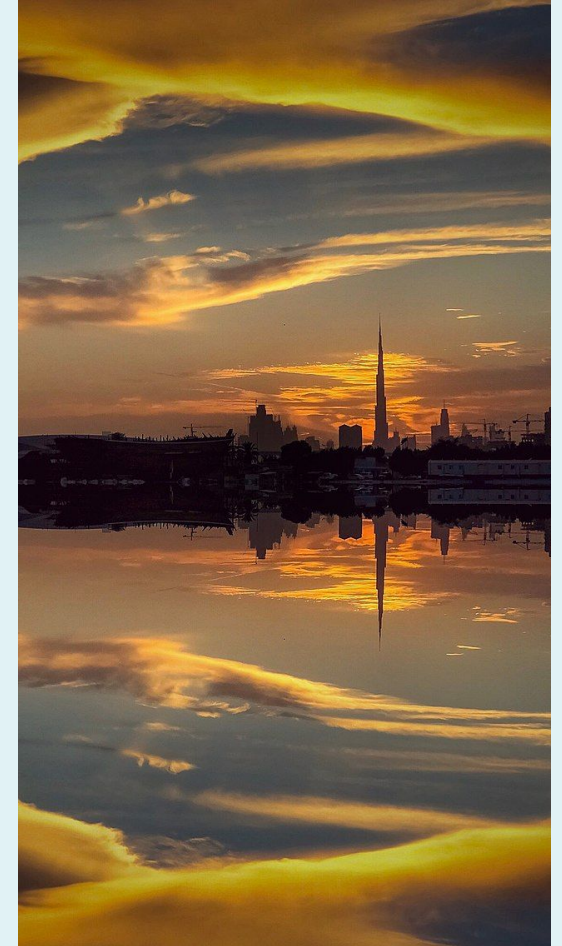
Looking solely at yields alone for this year, real estate, and especially apartments, seems to be the clearly superior choice. However, this fails to take into account the significant price appreciation many DFM and ADX stocks have seen this year.

## - Luxury vs Mid Market

While mid market communities have displayed better average rental yields post-COVID, luxury communities have seen better total returns as a result of the greater price appreciation in high end properties. However, as we have previously suggested, luxury prices are likely to underperform in the coming months, making it unlikely for investors to see these exceptional returns to continue at the same rate.

## - Stock Comparison

As noted, there is an inconsistency between the disparate results between individual stocks and communities and the overall comparison of the two indexes against the price performance of Dubai's residential market. On balance it appears as if investors should opt for real estate stocks, thereby deriving the benefits of both asset classes. As stocks, they will naturally be more liquid and come with significantly lower transaction costs, while still being able to capture the rising value of UAE real estate.





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# Our Aspiration and Motto

**“No barrier can withstand the strength of purpose.”**

-HH General Sheikh Mohammed Bin Rashid Al Maktoum  
The Ruler of Dubai, Prime Minister and Vice President of the UAE

