SJIF Impact Factor (2023): 8.574| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 8 | Issue: 7 | July 2023 - Peer Reviewed Journal

THE IMPACTS OF COVID-19 ON THE REAL ESTATE MARKET IN DUBAI

Kshitij Kant

Article DOI: https://doi.org/10.36713/epra13958
DOI No: 10.36713/epra13958

INTRODUCTION

In 2020, as a result of the coronavirus pandemic, the entire world went into 'lockdown'. During this phase, the global economy shut down because no one was allowed to leave their home and correspondingly no economic or commercial activity (which required physical interaction) could take place.

This led to great global economic breakdowns. Both small and medium sized enterprises and multinational corporations alike lost significant sources of revenue, and some firms even went bankrupt. Consumers lost employment and sources of income for their households. Countries went into large budget deficits attempting to correct the stagflation through expansionary demand side fiscal and monetary policies. As can be seen, the COVID-19 pandemic only brought negative implications for the entire world.

Dubai went through the consequences of this economic crash, not unlike the rest of the world. However, Dubai was not greatly negatively affected by the pandemic relative to other economies throughout the world; as the unemployment rate and economic growth were controlled effectively through government policies.

Zooming into the real estate industry, it is one that involves a lot of human interaction at all stages of the commercial activity, whether that be conducting viewings to encourage clients to purchase the property; or signing sale and purchase agreements for transaction of properties. The initial phases of the coronavirus pandemic resulted in a full shut down of the industry and when the lockdown was lifted, the real estate industry in Dubai underwent a myriad of intriguing implications.

There were a large number of factors that influenced the changes in the property market following the events of 2020 during the COVID-19 pandemic, and these are the factors that will be thoroughly explored and analysed in this research paper. Such factors include the change in population as a result of the imbalance between immigration and emigration in the city, the rising unemployment figures, the wealth of residents of Dubai, and even the behavioural aspects of consumers' preferences towards certain types of property rather than others.

This research paper is going to investigate how the COVID-19 pandemic has impacted the real estate market in Dubai.

Dubai vs The World

Dubai is a global market for property and has become a middle eastern hub for wealth thanks to its affordability, global appeal, and accessibility.

Khaleej Times, UAE's longest-running daily newspaper, reported in March 2023 that Dubai's property prices are up to 80% cheaper compared to other global property destinations including Monaco, Hong Kong, Paris and Melbourne. Knight Frank's 2023 The Wealth Report published outlined how $1 million (USD) purchases 1130 sq ft of prime residential real estate, compared with Monaco's 184 sq ft, New York's 353 sq ft and Singapore's 365sq ft. This affordability attracts global investors to the market and allows for residents to make significant investments. Throughout COVID-19, as a result of this affordability, foreign ultra high net worth individuals (UHNWIs) looked towards Dubai for their residential real estate investments as the rest of the world lost its attractiveness, this will be further discussed on page 8.

The impact of Dubai's affordability is exacerbated by the 0% personal income taxes present in the United Arab Emirates (UAE) and the lack of individual tax registration or reporting obligations. This means that residents and investors retain 100% of their earnings from all sources of income, except for profits from commercial activity, free to spend it as they please. Even when Dubai introduced a flat 5% Value Added Tax on all purchases in January of 2018, the government exempted residential property purchases from VAT in order to maintain affordability and attractiveness towards UHNWIs and residents alike.

SJIF Impact Factor (2023): 8.574| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 8 | Issue: 7 | July 2023 - Peer Reviewed Journal

The government has made it even easier for UHNWIs to visit, and expatriates to reside in the city by improving accessibility. Today, Dubai stands proud as the city with the largest international airport in the world and is one of the safest cities in the world to visit. This safety allows for peace of mind during transit and confidence in the economy when investing as compared with the rest of the world.

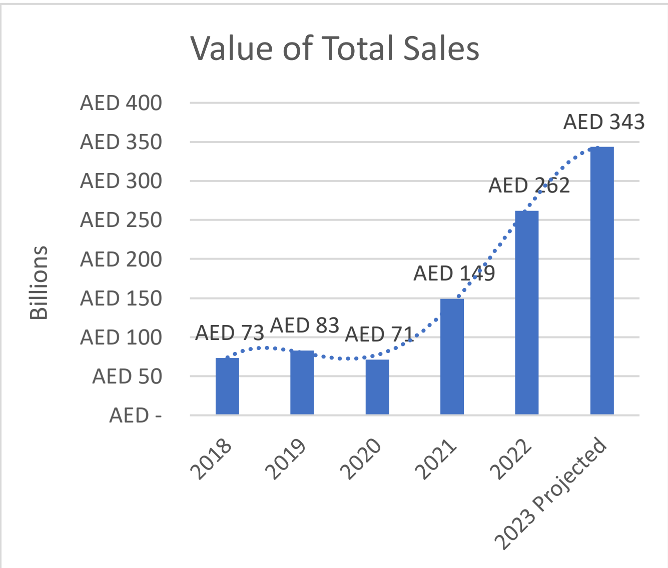
The diversity, inclusivity and multiculturalism in Dubai is another contributing factor to Dubai's appeal as a global destination. BBC Travel reported that Dubai is among the top 10 most multicultural cities I the world, with residents originating from over 200 nationalities and speaking over 300 languages and dialects. In fact, Dubai is the only Middle Eastern city where the government approved construction of numerous temples, churches and other buildings for worship in one area; and named the district the worship village – this represents the city's tolerance for different religions and cultures. The diversity and inclusivity of Dubai adds a sense of home for expatriates, and a warm feeling of safety in Dubai compared to other global hubs adding investment incentive and a lucrative appeal to the city.

Dubai's strategic appeal as a global hub for wealth is rooted in several factors that make it unique when compared with other cities. These reasons range from Dubai being a lucrative location as it is situated at the crossroads of Europe, Asia and Africa; to Dubai being an oasis for innovation with a commitment to visionary projects and ambitious initiatives. Such factors endorse the global appeal present towards Dubai, reaffirming the security of investments in the city.

The overall affordability, accessibility and global appeal set Dubai up for success in years of its development securing large foreign and local investments into its real estate sector before the pandemic struck.

Overall Market Impacts

As expected, as a result of the pandemic, there was a recession in the real estate market.



As shown in the graph, Dubai's real estate industry was on a growth streak with a compound annual growth rate (CAGR) of 14% from 2018 to 2019. However, as the pandemic struck there was a shutdown of the market and thus resulting in a CAGR of -14%. The economy however recovered from the pandemic very quickly, as there was a CAGR of 110% from 2020 to 2021 and a CAGR of 75% the following year. It is projected, based on YTD data, there will be a CAGR of 31% from 2022 to 2023. These are very impressive values, considering that globally markets and economies struggled to survive and many crashed. The way that Dubai's government responded to the pandemic made Dubai among the first cities to reopen after the COVID-19 pandemic. As its economy bounced back, Dubai drew expatriates from around the world seeking revived business prospects and employment. The influx was spurred by the city's early emergence from lockdown and its abundant post-pandemic opportunities.

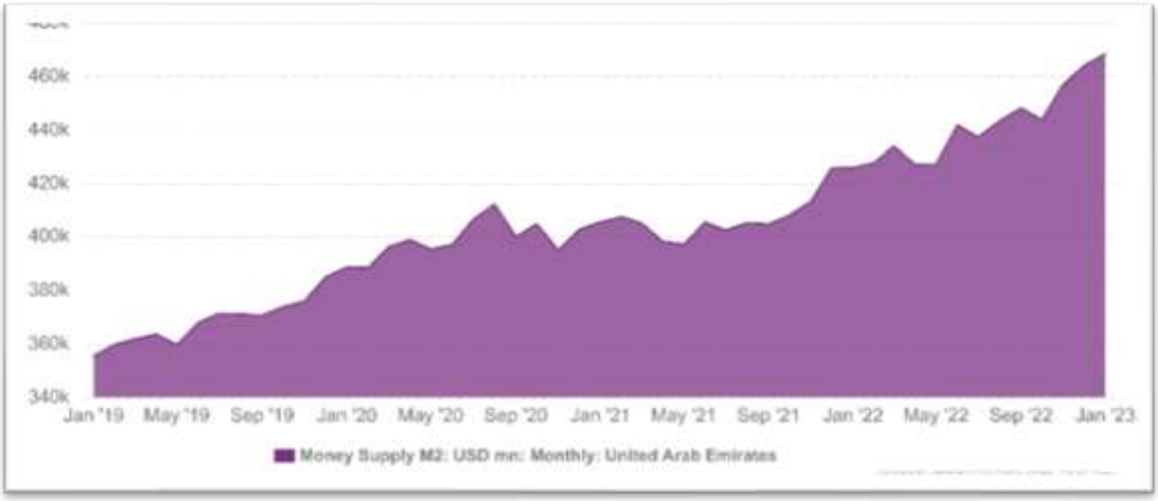
Expo 2020 may have been another contributing factor to the skyrocketing property sales. Delayed from 2020 because of the pandemic, the Expo took place between October 2021 and March 2022. Over its duration of 6 months, the event saw greater than 24 million visits, with one in every three visitors coming from overseas. With such large number of visitors witnessing the beauty of Dubai, and its global appeal in addition to the affordability of its property, accessibility, the golden visa, and numerous other incentives; their visit to expo 2020 may have transformed into an investment in real estate in the city given the 75% growth rate from 2021 to 2022.

However, there were a multitude of other reasons, as discussed further in this report.

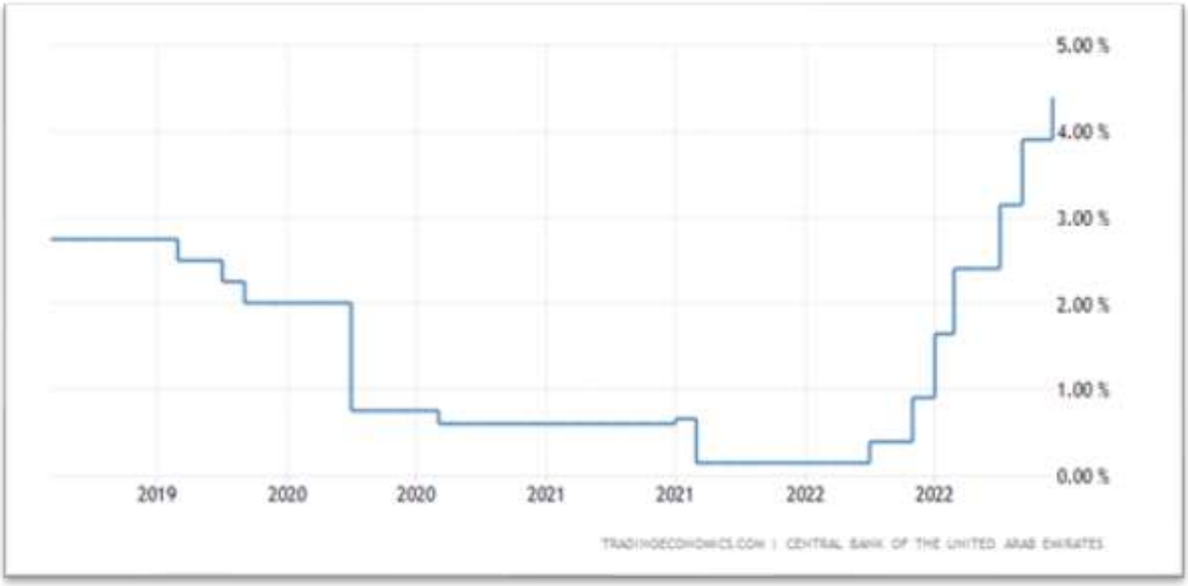
Monetary Policy

In order to deal with the initial impacts of the pandemic, Dubai's government implemented expansionary monetary policy through a reduction in interest rates and a reduction of the reserve requirement to encourage consumption and investment in the economy. Specifically, the central bank implemented a reduction in the reserve requirement to 7%, allowing commercial banks to put a greater amount of money to use for lending or otherwise.

SJIF Impact Factor (2023): 8.574| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 8 | Issue: 7 | July 2023 - Peer Reviewed Journal



The lowered reserve requirement led to an increased money supply, going from approximately $390 billion in Q1 2020 to $410 billion in Q3 2020.



The central bank also lowered their interest rates from 2.75% pre pandemic to 1% and lowered it once again at the end of 2022.

SJIF Impact Factor (2023): 8.574| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 8 | Issue: 7 | July 2023 - Peer Reviewed Journal

The value of total loans is a strong indicator of the levels of investment in an economy and with more money available in the economy as a result of lower reserve requirements and more affordable mortgages available as a result of lower interest rates, total loans rose from approximately $425 billion in Q1 2020 to almost $445 billion in Q3 2020.

The statistics suggest that the government's monetary policy implemented was successful in increasing investment in the economy, and part of this increased investment was directed towards the real estate market leading to the growth of the market observed from 2020 and onwards.

The Golden Visa

One of the largest complaints that investors had in the past was that they were unable to visit the city to physically see their property as a result of the strict visa laws.

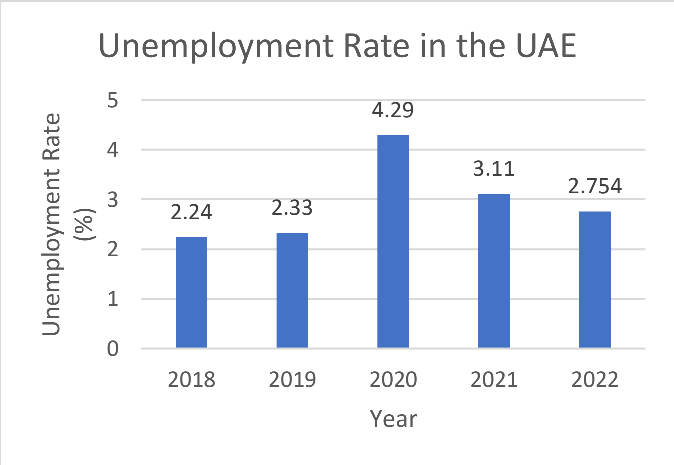
To improve accessibility of the real-estate market, Dubai and the UAE implemented the Golden Visa in 2022, a 10-year renewable visa that does not expire if you stay out of the country and can be obtained with the purchase of a property worth AED 2 million or higher.

Having seen the harm caused by the COVID-19 impact to the real estate market, Dubai's government wanted a way to further increase investments in the city. In order to encourage investment in the real estate market, the government approved this addition to their visa laws, and this is proving effective as there is expected to be over AED 340 billion worth of transactions in the 2023 fiscal year, a compound annual growth rate of higher than 30% from 2022.

Unemployment

The Dubai Statistics Center reported that the population of the city has been consistently increasing and did not dip even in midst of the pandemic. A similar trend was seen across the rest of the country.

SJIF Impact Factor (2023): 8.574| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 8 | Issue: 7 | July 2023 - Peer Reviewed Journal



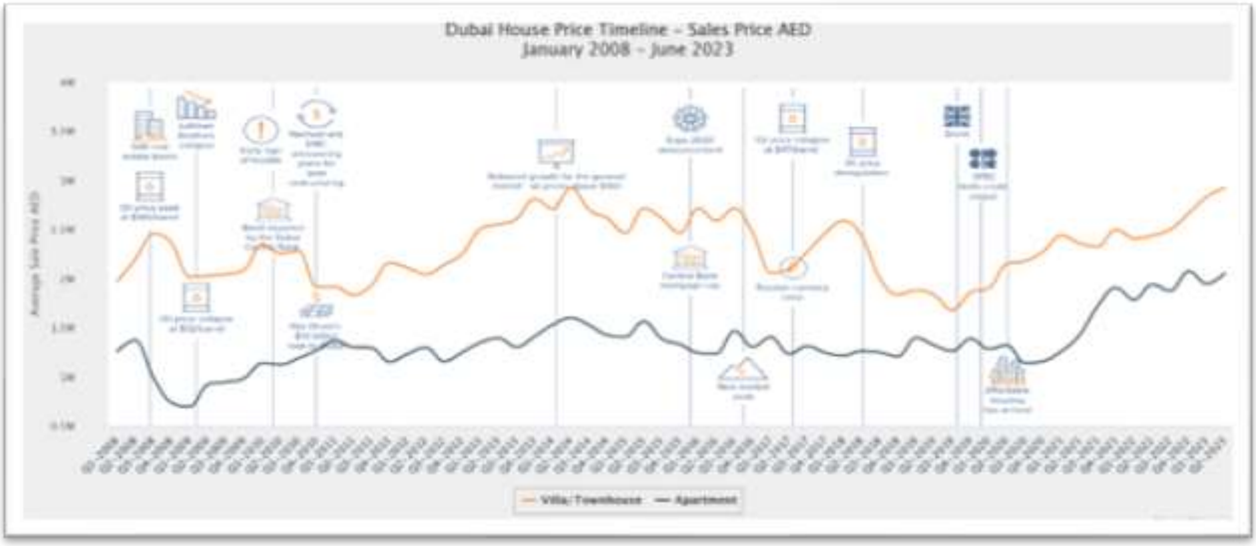
As the pandemic hit, countrywide unemployment rates shot up by nearly 84% in 2020, and immediately dropped by 30% in 2021.

This strong response was a result of the government's strict visa policies, disallowing anyone on an employee visa who has been made redundant to stay in the country.

Correspondingly, this sharp increase in unemployment and emigration led to 189,850 rental contracts not being renewed in 2020, as reported by Property Monitor. However, in the same year approximately 225,000 new rental contracts were registered with the Real Estate Regulatory Authority (RERA). There is a second reason to the significant number of unrenewed contracts, which will be further discussed on page 8.

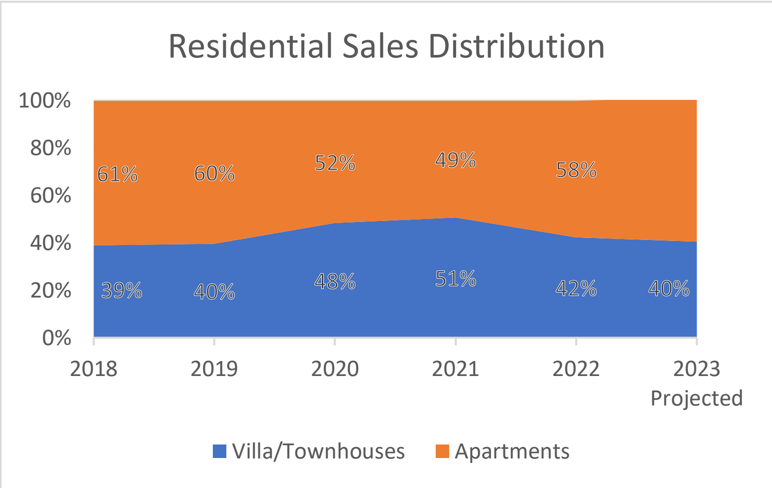
The interesting thing is that even given the higher unemployment rate, residents of Dubai continued to purchase residential property throughout the pandemic. This was because of the lower interest rates, further discussed on page 5 and the price-value bias. Consumers saw they were able to purchase the same high value property for a much lower price during the pandemic and, aided by the lower interest rates for acquiring mortgages, jumped at the opportunity.

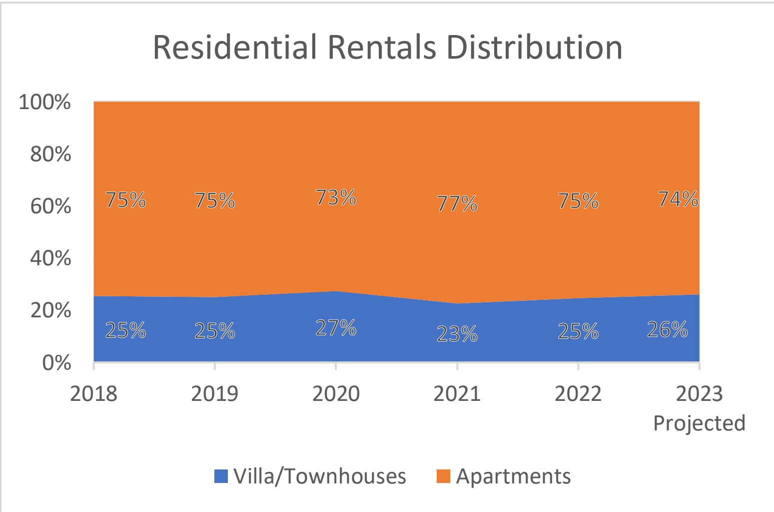
Residential Market



The above graph shows the variation in the average sale prices for both villas and apartments since 2018. Some key takeaways is the high volatility of prices of villas & townhouses, while apartment prices have comparatively been more stable. However, based on a survey conducted by me, 364 of 487 respondents who live in Dubai said they prefer living in a villa as compared to apartments.

SJIF Impact Factor (2023): 8.574| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 8 | Issue: 7 | July 2023 - Peer Reviewed Journal





Because of the availability of townhouses and villas in the city, consumers' behaviour is heavily influenced by the substitution effect. During 2020 and 2021, when prices of villas were at their lowest, Villas & Townhouses comprised of nearly 50% of overall residential sales in Dubai. Because of their higher average price during other years, apartment sales comprised of nearly 60% of residential sales in the city. As a result of the substitution effect, when the prices of villas and townhouses fall, consumers will substitute apartments for villas. And this is what visibly happened during the pandemic. There were upwards of 189,000 rental contracts that were not renewed, and it is safe to assume that a majority of these tenants moved into villas because of the substitution effect and the prevalent preference for villas and townhouses when compared with apartments in Dubai. There is evidence for this in the distribution of residential rentals, as in 2020 when the prices for villas and townhouses were at the lowest then 27% of residential rentals were villas, higher than the 25% average, so those who couldn't afford to purchase a villa even with the lower cost, rented one because of their preference for the property type.

As discussed on page 6, as a result of unemployment, a significant portion of the expatriate population was forced to emigrate back to their home country during the pandemic. However, since Dubai was one of the first cities in the world to reopen post pandemic, great numbers of expatriates immigrated into the city leveraging the growing commercial sector, as well as the golden visa discussed on page 6. Along with expatriates came Ultra High Net Worth Individuals (UHNWIs), as reported by Knight Frank's 2023 The Wealth Report 393 individuals in the UAE were identified as UHNWIs with 36 having a net worth of greater than $1 billion. The 2020 publication of the same report predicted a 17% growth of UHNWIs in the middle east, in addition to projecting the breakdown of UHNWIs' investment portfolio with 27% being in property and 26% of all UHNWIs intending to purchase a new property in the same year.

The immigration of UHNWIs was further bolstered by the Russia-Ukraine war in 2022, where Dubai emerged as a haven for wealthy Russians who attempted to flee their home country avoiding western sanctions put in place as a result of the war. The BBC reported that property purchases in Dubai by Russians rose by 67% in the first quarter of 2022, moving to secure their wealth and buying for more than just investment, but seeing Dubai as their new second home.

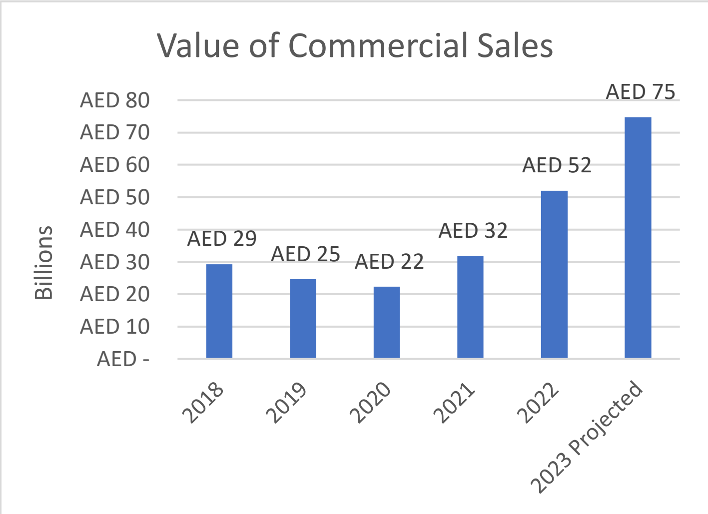
The high demand for ultra luxury properties led to sharp increases in price of up to 44.2%, as reported by The National News, as a result of lack of supply. However, this did not have a significant impact on the demand from UHNWIs.

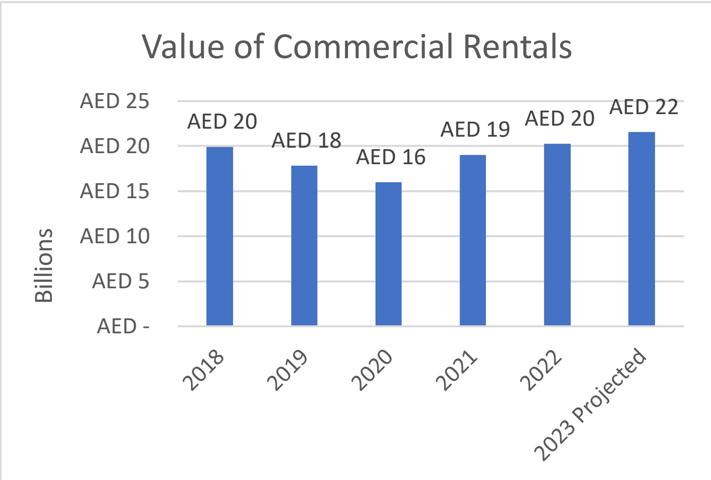
It is evident that the immigration of UHNWIs into the UAE, as a result of affordability and the golden visa, further catalysed the growth of the industry and resulted in the 110% compound annual growth rate from 2020 to 2021. In 2022, Dubai was ranked as the world's fourth most active market in the luxury residential segment in the world, further evidence of the positive impacts of UHNWIs' presence in Dubai.

SJIF Impact Factor (2023): 8.574| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 8 | Issue: 7 | July 2023 - Peer Reviewed Journal

Commercial Market

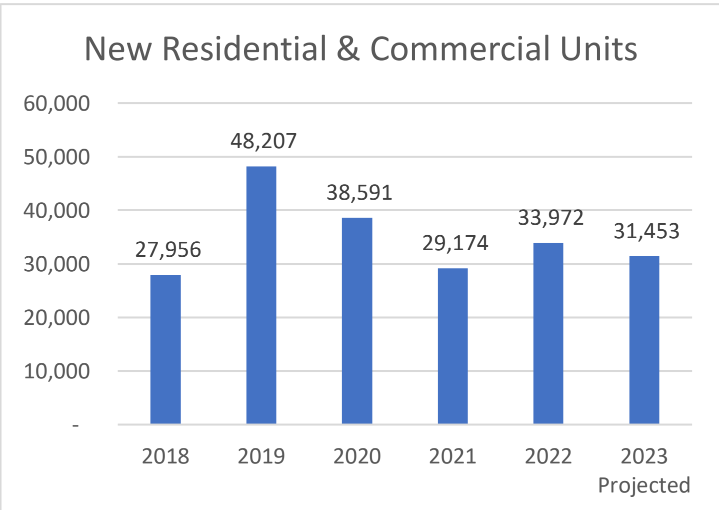
It is evident that the commercial real estate market has been booming since the pandemic, the value of commercial sales recovering in 2021 and then growing at a CAGR of 43% from 2020 to 2021 and then 63% from 2021 to 2022. The rental market recovered in a similar fashion and is experiencing steady growth, although not to the extent of the sales.





The quick recovery and booming growth of the commercial real estate market can be attributed to Dubai's easing regulations for commercial activities, as the government announced Federal Decree Law No. 50 of 2022 whose primary aim was to impart increased levels of flexibility and competitiveness to the UAE's business climate as reported by the ministry of economy itself. Another factor bolstering Dubai's commercial real estate growth was the Russia-Ukraine war where, as a result of the sanctions placed on Russia, numerous multi national corporations (MNCs) shifted their Russian offices to Dubai. The Wall Street Journal reported that firms, including JP Morgan, Goldman Sachs, McKinsey, BCG, Google, and Bloomberg, relocated their operations to Dubai exploiting the few flight corridors available to the firms in the time of connections being cut to the western world, further cementing its place as a global commercial hub. Lastly by re-opening early and loosening visa rules, Dubai welcomed foreign talent and businesses as soon as Q4 of 2020 when other countries struggled to provide basic essentials to their populations, becoming a lucrative global haven for business development and commercial activity.

Supply of Property



Due to the nature of construction of real estate, it often takes 3-10 years for the development of a new project. During the pandemic, as a result of the lockdown, all construction projects were halted, and subsequently large numbers of projects were delayed. Of course, delays in property handover and completion is common in the buyer's experience with off plan properties, but during the pandemic numerous developers delayed the handover of properties for over a year and buyers were given no reason leading to falling supply in the market. Supply of property fell from approximately 50,000 in 2019 to an average of approximately 30,000 from 2021 onwards. This property shortage in the city is leading to increases in the overall property prices, increasing annually by an average of 11.5%. This amount of growth in the market is positive, but if the inflation margins continue to grow, this may lead to a crash of the real estate market because no one except the UHNWIs will be able to afford property.

SJIF Impact Factor (2023): 8.574| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 8 | Issue: 7 | July 2023 - Peer Reviewed Journal

Future Growth

Dubai's real estate industry is one that has persevered through the hardest of times, from the 2009 financial crisis to the 2020 pandemic, and has exited these crises with significant growth. It is expected that 2023 onwards, although the economy will continue growing, the growth will stabilize at compound annual growth rates higher than pre-pandemic but not as high as those we saw between 2020 and 2023.

The city's population goal for 2040 is a massive 6.5 million residents, and the current supply of residential properties will not be able to accommodate this population. The developers in Dubai will have to step up and almost double the supply of property. As reported by the Dubai Statistics Center Dubai in 2021, Dubai had over 690,000 residential properties. That means that at the moment Dubai has approximately 750,000 residential properties catering to its population of 3.5 million. In order to accommodate its estimated 5.4 million residents and considering its goal of 6.5 million residents in 2040, Dubai will require up to 550,000 additional residential units by the same year.

The growth of the industry will take another interesting turn, with COP 28 approaching. The 28th session of the Conference of Parties, an annual gathering held to evaluate climate change and its importance, is going to be held in Dubai in 2023. Seeing this, the ruler of Dubai approved 78 environmental projects and initiatives to emphasise the importance that sustainability holds in our world. These environmental initiates look to make the adoption of sustainability practices a priority in innovation and development, highlighting that future growth in the real estate market and the rest of Dubai's economy will be in a sustainable manner. Thus, the additional 550,000 units that the developers in Dubai aim to construct must be done in a sustainable manner that adheres to the initiatives and regulations established by the ruler of Dubai.

CONCLUSION

Dubai's real estate market has been a resilient one, fighting against the pandemic during its most vulnerable time in 2020, and emerging even stronger than it was before. The pandemic has catalysed the long-term growth that the market had and resulted in massive boom in the market as a result of the monetary policy implemented, golden visas introduced, UHNWIs immigrated and the establishment of Dubai as a lucrative global hub for multinational corporations. Dubai will continue to remain the proud home of one of the most prominent real estate markets in the world and will see further growth in this market.

WORKS CITED

1. *https://www.thenationalnews.com/business/property/2023/03/01/dubai-ranked-as-the-worlds-fourth-most-active-luxury-residential-market/*
2. *https://www.zawya.com/en/press-release/companies-news/dubai-property-market-to-experience-the-biggest-price-growth-in-the-world-by-the-end-of-2023-qiqw5cm0*
3. *https://propertymonitor.ae/v2/real-estate-commercial-market-statistics-detail.php?mn_year=2022&loc=&subloc=&subloc2=&subloc3=&evidence=TRA&evidence_type=Full&unit_type=Commercial&fromDate=2023-07-01&toDate=2023-07-31*
4. *https://content.knightfrank.com/research/1757/documents/en/the-wealth-report-middle-east-2023-9993.pdf*
5. *Pages - Population and Vital Statistics (dsc.gov.ae)*
6. *https://www.bbc.com/travel/article/20220105-why-is-this-country-so-resilient*
7. *https://www.expatustax.com/understanding-the-concept-of-tax-free-dubai/*
8. *https://www.khaleejtimes.com/business/property/dubai-prime-property-prices-cheaper-by-80-compared-to-global-cities-even-after-2-year-rise?_refresh=true*
9. *https://www.thenationalnews.com/business/property/2023/03/01/dubai-ranked-as-the-worlds-fourth-most-active-luxury-residential-market/*
10. *https://www.binayah.com/dubai-prime-property-prices-are-80-cheaper-than-global-cities/#:~:text=Dubai%20Prime%20Property%20Prices%20Are%2080%25%20Cheaper%20Than%20Global%20Cities,-by%20admin&text=There%20Has%20Been%20An%20Unprecedented,by%2020%20to%2080%20percent.*
11. *https://www.zawya.com/en/press-release/companies-news/dubai-property-market-to-experience-the-biggest-price-growth-in-the-world-by-the-end-of-2023-qiqw5cm0*
12. *Wealthy Russians flee to Dubai to avoid sanctions - BBC News*
13. *United Arab Emirates Money Supply M2, 1991 – 2023 | CEIC Data*
14. *United Arab Emirates Total Loans | 2013 - 2023 | Economic Indicators | CEIC (ceicdata.com)*
15. *Google, JPMorgan, Other U.S. Firms Flee Russia for Dubai - WSJ*
16. *Ministry of Economy reviews new Commercial Transactions Law and its role in supporting & developing UAE's business environment | Ministry of Economy - UAE (moec.gov.ae)*
17. *Dubai property market to experience the biggest price growth in the world by the end of 2023 (zawya.com)*
18. *https://gulfnews.com/expo-2020/expo-2020-dubai-recorded-more-than-24-million-visits-over-its-six-months-1.86911202*
19. *Multicultural Dubai: Education, Food, Shopping & More - MyBayut*