



The Knowledge Economy Report | 2019
From the Ground Up
An Opportunity Assessment for Investors and School Operators

A Market Report By
Property Finder & The Education Intelligence Group



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Introduction



As the years have passed, Dubai and to some extent, Abu Dhabi, have diversified their economies away from being dominated by oil revenues and with that the number of expatriates in the country has only increased.

Per a 2018 United Nations study on global happiness, the UAE is cited as the country with the highest expatriate population in the world at 87 percent (Helliwell, John F., Richard Layard and Jeffrey D. Sachs, 2018)¹. Given that the majority of non-nationals are not able to enroll in the public education system, there are a wide breadth of private institutions catering to the school-age population.

Equally important as schooling to a family's nucleus, is housing. Irrespective of place, two of the largest expenses families have to budget for are housing and schooling. Despite the popularity of Dubai's real estate as an asset class for investors, the decline of property prices since 2016 has brought some realities to the forefront. Although property prices have declined for a number of macroeconomic reasons such as a strong US Dollar as well as a decline in both the price of oil and the demand for it, the contraction in the market has not been exclusive to residential property. In recent years, a number of schools in Dubai have been faced with an increased number of empty seats. An increase in new school supply coupled with a higher number of families relocating back home or moving their children to more affordable schools has contributed to the problem.

Despite the market contracting, new residential property supply hit a peak in 2018 with 30,767 units completed, according to Property Finder Data & Research. From 2019, and the years leading up through to 2023 we are expecting at least another 212,821 residential units; an average of 53,205 units per year. According to Property Finder Data & Research, this count is based on developments that have been announced and are currently under construction with an expected completion date through 2023. While long-

¹World Happiness Report 2018. Helliwell, John F., Richard Layard and JEFFREY D. Sachs. United Nations. 2018. <http://worldhappiness.report/ed/2018/>.

Introduction (continued)

standing communities such as Downtown Dubai and Business Bay will see the addition of new supply, but the majority of new supply is concentrated in the southeast and southwest communities in Dubai such as Mohammed Bin Rashid City, Jumeirah Village Circle, Dubai Land and Dubai South.

Expanding school supply parallels that of the residential sector. Despite more schooling seats coming up in already existing schools, 16 new schools opened in 2018 adding an additional 25,000 more seats. As existing schools struggle to fill seats, one wonders how new schools are competing. Considering the potential oversupply in both sectors, it is important to map how school supply matches, or mismatches, the supply of residential property. Price point is also another factor as there is a limited appetite for parents to travel as far as getting their children to school or sending them on lengthy bus rides. There is more information on preferences in the focus initiatives section.

Our hypothesis is that based on the average asking prices for sales and average annual rental prices for all property types across the Emirate of Dubai, most current and incoming school supply is not priced in accordance with the income and affordability levels of the residents within the immediate and surrounding communities. This hypothesis is colored by the following facts and statements:

- Emirates NBD's Purchasing Managers Index (PMI) for the UAE reported a rating of 59.4 for May 2019, compared to 57.6 for April. The last three months have shown improved growth in the overall reading as March's PMI rating stood at 55.7, preceded by 53.4 in February and 56.3 in January. February's dip was a result of firms halting hiring and even laying off a part of their workforce (Emirates NBD, 2019)². While output and purchasing is strengthening, job creation, hiring and wages are still stagnant.
- The education sector has seen significant growth in new school supply ultimately creating a surplus of seats and thus creating a culture of discounts and incentives in order to fill them. New schools entering the market need to heed the mistakes made by previous operators and align their financial goals accordingly. Opportunities for investors and recommendations are provided in the conclusion of this report.
- The average annual asking price of new schools entering the market in 2018 was AED 55,509, a AED 14,695 increase from 2017.
- Taking 2019 sales figures into account, the average price of an off-plan apartment is AED 1.55 million³ compared to AED 1.78 million⁴ for an off-plan villa/townhouse. The average price of a secondary apartment is AED 1.19 million⁵ compared to AED 3.5 million for a secondary villa/townhouse (Property Finder Data & Research, 2019)⁶.

² Emirates NBD. "UAE PMI at a 16-month high in April". Dubai, United Arab Emirates. Emirates National Bank of Dubai (ENBD). 5 May 2019. <http://www.emiratesnbdresearch.com/research/article/?a=uae-pmi-at-16month-high-in-april-1367>

³ Figures for off-plan apartment pricing based on 2,353 recorded transactions.

⁴ Figures for off-plan villa/townhouse based on 446 recorded transactions.

⁵ Figures for secondary apartment based on 1,522 recorded transactions.

⁶ Figures for secondary villa/townhouse based on 408 recorded transactions.

Housing and School Fees – What is the Connection?

As tuition fees have been frozen, new schools entering the market have raised the overall average school fees. Despite this, rent in many residential areas is decreasing. The direction of school fees can partly be attributed to the new entrants to the market who are looking to circumvent regulations that control fee increases, by coming in at a premium level.

Rental costs of both apartments and villas are declining at a rate between 2.5 and 6 percent per annum and this trend is expected to continue.

However, where we see a disconnection is between the rate at which school operators are providing discounts and incentives and the slower pace for the same in the housing sector. With prices for apartments and villas for both sales and rentals declining for almost all areas since 2016, it was not until the last 12 months that we can say we saw some landlords and owners adjusting the pricing for their property. Some of the communities that have seen larger declines, such as Damac Hills, will show adjusted prices and some incentives, albeit not enough to really boost transactions enough. Property is still largely inflated, by about 15-20% and we will continue to see trends decline through 2019 and 2020. Ultimately, it is up to landlords and owners to price their property accordingly or risk sitting on something for too long.

The trouble in the education sector with inflated tuition fees, an oversupply of schools with too few pupils to fill all of them, and the trends that are playing out as a result of the constricted economic situation runs parallel to that of the housing sector and this is largely due to a lack of demand, which is attributed to the economic situation. As Emirates NBD, and other reputable outlets, have reported, hiring is not taking place for most firms and wage growth is stagnant, and even falling. Therefore, the largely exorbitant fees paid for children's tuition as well as housing have had to reduce. With that being said, there is still a great deal of input from the government in order to not only generate demand, but to ensure that neither sector falters immeasurably.

Housing and School Fees – What is the Connection? (continued)



The unprecedented supply of housing and schooling options for Dubai residents that has been most prominent in 2018 has created an environment for these two sectors that is driven by buyer's choice and competition.

Opportunity through a wider sense of community

This new norm has created opportunities for investors to define what it means to be a resident of Dubai, and what it really means to be part of a larger community. Property Finder and the Education Intelligence Group have explored the themes of choice, competition, opportunity, and residents' perceptions of 'community' to explore the new opportunities that exist within the residential and educational landscape of Dubai.

In 2018, 30,767 residential units were supplied to the market according to Property Finder Data & Research. Inevitably, this has placed additional pressure on already declining prices. The upswing is lower rental prices have led some apartment-dwellers to move to villas, and others who have been long-time renters, are now deciding to purchase. I predict the latter trend to increase in the coming years as lower rental prices cause many to save more money to put toward the down payment. Overall, declining rental prices have caused a shift in the market not only economically, but also theoretically in the sense that there has been a power shift from landlords to tenants.

Additionally in 2018, 16 new schools opened in Dubai with over 25,000 more school places supplied to the market. Parents have both the choice of curricular and price point in virtually every community of Dubai, and incentives are available across Dubai. New operators entering the market have learnt that competitiveness and longevity are the drivers for success, unlike years past, when demand outstripped supply.

The UAE continues to move forward with its plans to expand economically and socially and several initiatives have been announced to increase confidence in the UAE as a country to reside in and remain for the long-term future.

As this new future is defined by the regulators, residents need to align their expectations about what it means to be a resident as well as a member of the community in Dubai.

Education Sector Overview



The unprecedented supply of housing and schooling options for Dubai residents that has been most prominent in 2018 has created an environment for these two sectors that is driven by buyer's choice and competition. In 2018, choice was the word that every parent in Dubai was able to exercise when it came to schooling. Parents had choice across curricular, price point and location. Most new schools are nowhere near capacity. In fact, many existing schools now have space because of the increased choice of schools in the market.

We define a mature education market as one that is driven by parental choice. When parents have more choice and supply outweighs demand, schools have a responsibility to deliver quality. Before 2014, supply had outstripped demand in Dubai, thus quality and choice have not been factored in to the equation of deciding where one's child will go to school because the choice was dependent on availability and not quality. In recent years, the media, the government and regulatory authorities, and global audit firms define supply and demand as the paramount drivers of the Dubai education landscape. This may have been true in the past, but the signs now point towards a very different landscape.

Parents are in the driving seat and their position of power means that they can shop around to find the best deal. Schools have attempted to incentivize parents with free uniforms and extra-curricular activities included in the school fees. Incidental discounts are increasingly frequent and parents are exercising their bargaining power with school admissions offices.

Education Sector Overview (continued)



As the sector continues to mature, geography will be one of the biggest driving factors for parents in their decision making when it comes to education. Parents no longer have to travel across the city to find the school they are looking for. Virtually every community, and sub-community of Dubai now has more than one high quality school close by and a choice of curriculum and price point. New operators entering the market have learnt that competitiveness and longevity are the drivers for success, unlike years past, when demand outstripped supply.

In September 2018, 16 new schools opened in Dubai with over 25,000 new school seats supplied to the market. Only two of these schools were defined as 'affordable' with the remaining schools offering fees within the premium or mid-market segment. This new norm has created opportunities for investors to define what it means to be a resident of Dubai, and what it really means to be part of a larger community.

Property Finder and the Education Intelligence Group have explored the themes of choice, competition, opportunity, and residents' perceptions of 'community' to explore the new opportunities that exist within the residential and educational landscape of Dubai. As this new future is defined by the regulators, residents need to align their expectations about what it means to be a resident, a parent, as well as a member of the community in Dubai.

About

Property Finder

Property Finder is the leading digital real estate platform in the Middle East and North Africa region that facilitates the house hunting journey for both buyers and renters. Founded in 2007, the website has evolved over the years as the go-to platform for developers, real estate brokerages and house hunters to make informed decisions on all things real estate.

A UAE-born startup, Property Finder has branched out of the country's shores and operates in a total of seven markets, including Qatar, Bahrain, Saudi Arabia, Lebanon, Egypt and Morocco, and has a significant stake in the second largest property portal in Turkey. Property Finder generates over six million monthly visits as a Group.

US private equity firm General Atlantic led Property Finder's latest round of investment of a total of \$120 million in 2018. This is being used to hire further exceptional talent and investing in its technology and product capabilities.

The property portal employs over 450 employees globally, of which 204 people work out of its Dubai office.

www.propertyfinder.ae

The Education Intelligence

The Education Intelligence Group has made it its mission to offer its clients market leading data and analysis so they can avoid the pitfalls of their peers. The combination of their diverse and complementary experience across school curricula, allied to the rigorous and uncompromising analysis of data, provides potential investors with a unique perspective. That perspective can be best summed up in one word – clarity.

www.educationintelligencegroup.com

Where can I find the full report?

The full report is available in our online store through the following link:

<https://educationintelligencegroup.com/shop/the-knowledge-economy-report-from-the-ground-up/>

