



Research Note

Real Estate Monthly

Emaar Properties

Rating: Outperform

Union Properties

Rating: Outperform

Deyaar Properties

Rating: Outperform

Aldar Properties

Rating: Market Perform

Sorouh Properties

Rating: Outperform

RAK Properties

Rating: Market Perform

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- **Dubai Real Estate Property Price Index:** our Dubai real estate price index indicates a year over year price appreciation of 39.9% in the residential segment, while prices in the commercial segment appreciated by 40.5% for the same period.
- Rental yields remained flat in July versus June at a median rental yield of 6.8%, and compared to 7.8% in July of last year. The decline in rental yields year over year has been driven mainly by higher prices as the median rent in Dubai has increase by roughly 23% over last year levels. For commercial properties, the median rental yield also declined slightly to 11.9% in July from 12.4% in June.
- The seasonal slowdown continued in July, with prices on the residential segment only increasing a moderate 0.7% over last month levels. However, the office market has been bucking the seasonal trend and remains quite strong with a 3.7% month over month increase.
- **US\$ Strength – Impact on the market:** The value gap for non-US\$ real estate investors continues to exist, even in light of the recent strength in the US\$. We expect that if the US\$ continues to strengthen, some portion of investment demand would weaken. However, in our opinion, any moderation in investor demand would ease the transition from an investor/liquidity driven market to an end user/fundamentally driven market. The stronger US\$ would, in effect, reduce the prospect for an overheating of UAE real estate prices.

Equity Data	Emaar	UP	Aldar	Sorouh	RAK	Deyaar
Current Price (AED)	9.84	4.56	9.79	7.65	1.69	2.02
Target Price (AED)	17.29	6.88	12.97	11.92	2.54	3.53
Upside/downside	75.7%	50.9%	32.5%	55.9%	50.5%	74.6%
Market Cap. (AED bn.)	69.2	12.8	19.8	22.9	4.5	7.8
Ent. Value (AED bn.)	73.6	16.7	22.7	21.7	3.4	8.5
RIC	EMAR.DU	UPRO.DU	ALDR.AD	SORAD	RPRO.AD	DEYR.DU
2008E Estimates						
Revenues (AED mln.)	20,025	3,280	5,521	3,777	438	2,518
Gross Margins	38.2%	21.5%	45.1%	52.3%	43.0%	41.3%
EBIT (AED mln.)	5,336	573	1,275	1,587	149	835
EBIT Margin	26.6%	17.5%	23.1%	42.0%	34.0%	33.2%
EBITDA (AED mln.)	5,551	606	1,360	1,659	150	843
EBITDA Margin	27.7%	18.5%	24.6%	43.9%	34.4%	33.5%
EPS	1.13	0.33	1.28	0.88	0.28	0.28
Cash Earnings/Share	0.98	0.17	0.70	0.75	0.16	0.25
Valuation Multiples						
PE '08E	10.0	14.0	8.2	10.5	7.9	8.7
PE '09E	5.6	2.9	5.4	7.1	4.7	3.9
EV/EBITDA '08E	13.3	27.5	16.7	13.1	22.3	10.1
EV/EBITDA '09E	8.7	4.0	12.4	9.5	12.9	5.1
P/Cash Earnings '08E	11.6	26.5	14.9	12.2	14.1	9.8
P/Cash Earnings '09E	6.2	3.1	10.8	7.4	7.8	4.1
P/BV	1.6	4.0	1.8	3.6	1.5	2.5



Al Mal Dubai Real Estate Price Index

The Al Mal Dubai real estate price index indicates a year over year price appreciation of 39.9% in the residential segment, while prices in the commercial segment appreciated by 40.5% for the same period.

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Al Mal Dubai Real Estate Price Index

	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Residential													
Median Price/sq.ft. (AED)	1,298	1,309	1,336	1,362	1,383	1,410	1,495	1,612	1,656	1,729	1,790	1,818	1,831
Change (yoy)	N/A	N/A	N/A	N/A	N/A	18.8%	25.9%	33.3%	33.5%	35.1%	39.5%	40.8%	39.9%
Change (mom)	0.5%	0.8%	2.1%	1.9%	1.5%	2.0%	6.0%	7.9%	2.7%	4.4%	3.5%	1.6%	0.7%
Rental Yield	7.8%	7.8%	7.8%	7.7%	7.7%	7.7%	7.7%	7.6%	7.3%	7.1%	6.9%	6.8%	6.8%
Commercial													
Median Price/sq.ft. (AED)	1,469	1,521	1,562	1,598	1,651	1,699	1,751	1,821	1,854	1,921	1,996	2,060	2,137
Change (yoy)	N/A	N/A	N/A	N/A	N/A	29.4%	29.2%	31.0%	36.8%	38.2%	40.3%	42.7%	40.5%
Change (mom)	1.8%	3.5%	2.7%	2.3%	3.3%	2.9%	3.1%	4.0%	1.8%	3.6%	3.9%	3.2%	3.7%
Rental Yield	15.9%	15.5%	15.3%	15.1%	14.7%	14.4%	14.1%	13.7%	13.5%	13.0%	12.8%	12.4%	11.9%

Source: Al Mal Capital Research

Outlook for the Dubai Market

Price performance in the real estate market has already exceeded even our year-end target of AED 1817 per sq.ft., published in the beginning of this year. Additionally, though Dubai has experienced significant yield compression (about 100 basis points), yields still have a bit to come down in our opinion. We still contend that yield compression will come from real estate price appreciation rather than declining rental prices.

Strong US\$ May Dampen Demand, but Not Much

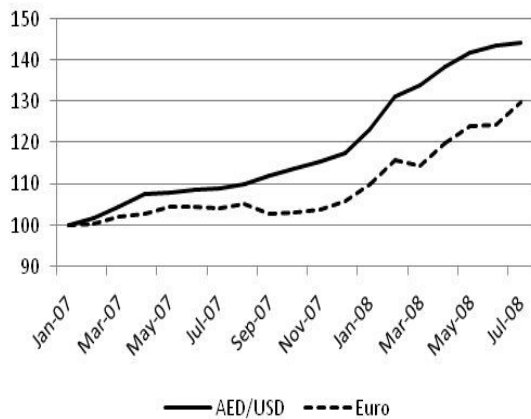
The chart below illustrates that as the US\$ has depreciated real estate prices in Dubai have driven higher. The question is if the local real estate market is negatively correlated to the US\$ or this is a coincidence?

With the significant size of investment into the sector coming from the UK, Europe, Asia, and Russia, it is hard to argue that a decline in purchasing power from these investors would not affect their purchasing decisions. However, as illustrated below in Euro terms real estate prices have yet to reach the same levels of appreciation than AED/US\$ levels. Therefore, we feel that the value gap still exists for non-US\$ domiciled real estate investors. If the US\$ continues to appreciate (which is by no means a certainty), we would expect investment demand to dampen somewhat.

It is, however, important to note that taking this more speculative type of investor out of the market could be better for the longer term real estate picture. We expect that any moderation in prices would ease the transition from a investor driven market to an end user market. In our opinion, this would lead to a market driven less by liquidity levels and more by the already strong supply and demand fundamentals.

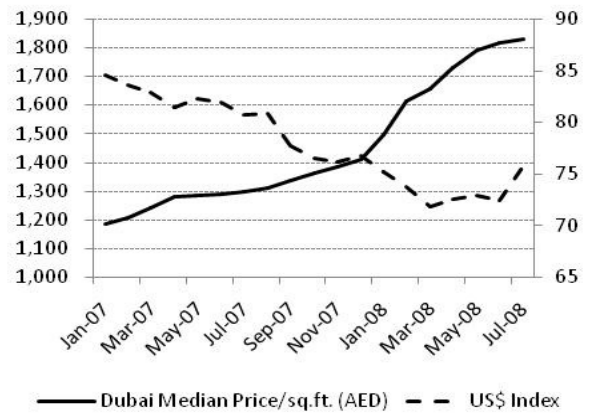
Therefore, we expect that if the US\$ continues to appreciate, demand (especially in the off plan segment) would slow. However, we feel this would lead only to a slower pace of growth from this year's roughly 40% appreciation. Most importantly it will ease the transition to an end user driven real estate market and decrease the risk of an inflation driven overheating of the market.

Real Estate Price Performance in AED/US\$ vs. Euro



Source: Al Mal Capital Research, Bloomberg

Al Mal Dubai Real Estate Price Index vs. US\$ Index



Source: Al Mal Capital Research, Bloomberg



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