

Investigating UAE Residential valuation systems: results and recommendations



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- Research aim and objectives
- UAE backdrop
- Research phases
- Draft framework
- Results: Explorations and Questionnaire
- Results: Confirmatory panel
- Conclusion



Project Context

- To provide Dubai Land Department with insights to improve UAE Residential Valuation System:
 - (1)an evidence based evaluation of preliminary thesis results to identify possible gaps and to produce useful feedback;
 - (2)a reliable scenario for the understanding of the future development and follow-up of the project, both in terms of expected impacts and opportunities.

Objectives

The research seeks to investigate the United Arab Emirates residential valuation system, looking for issues and improvements

Objective 1: Clarify the UAE valuation problem and propose a structured investigation.

Objective 2: Review literature on real estate markets and valuation standards to develop a draft explanatory framework.

Objective 3: Review Dubai backdrop and analyse its residential housing markets.

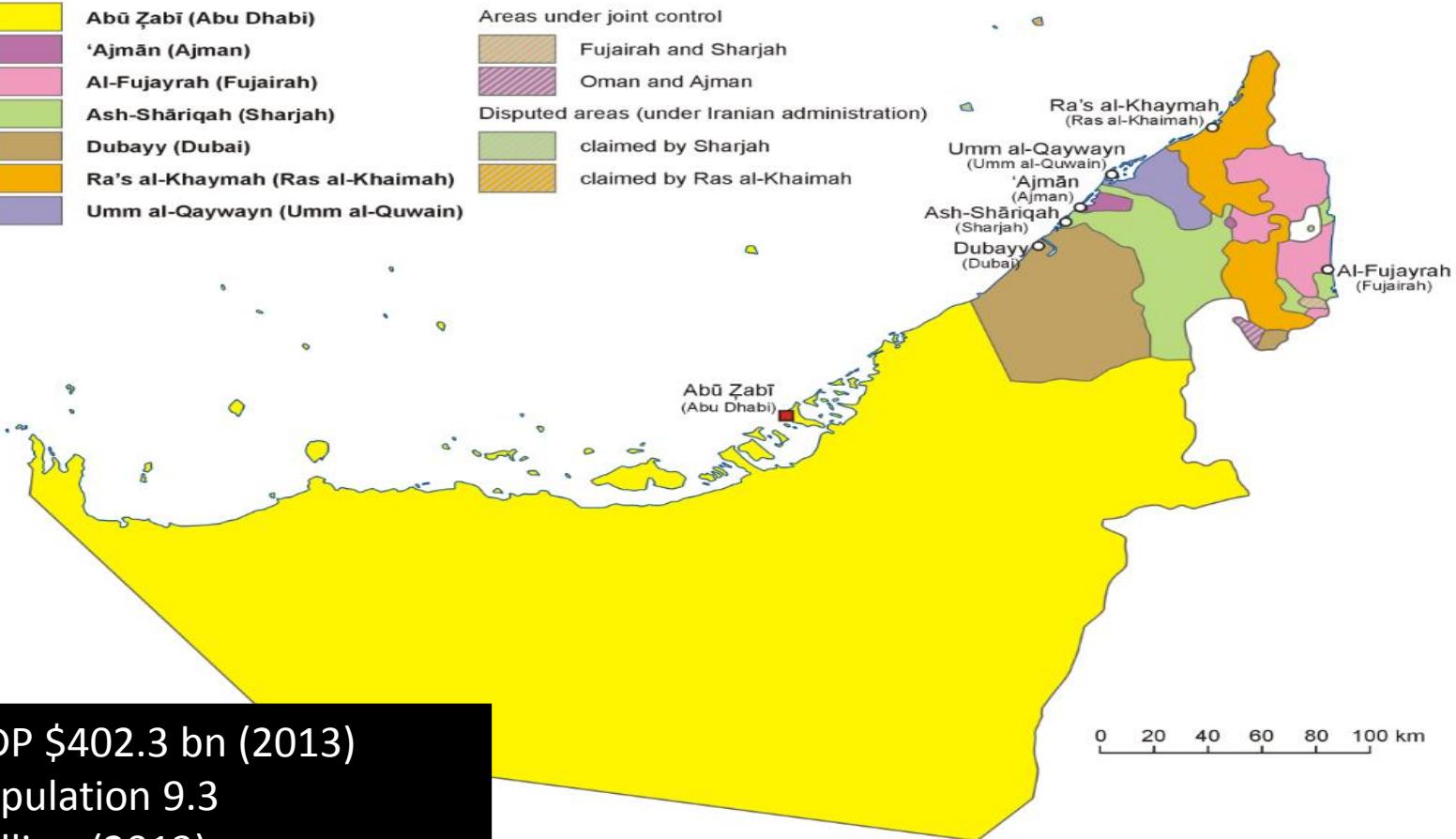
Objective 4: Investigate the Emirati valuation system through embedded observation and stakeholder interviews.

Objective 5: Reflect on institutional issues, validate findings and make recommendations

The UNITED ARAB EMIRATES MAP

Abū Zabī (Abu Dhabi)
'Ajmān (Ajman)
Al-Fujayrah (Fujairah)
Ash-Shāriqah (Sharjah)
Dubayy (Dubai)
Ra's al-Khaymah (Ras al-Khaimah)
Umm al-Qaywayn (Umm al-Quwain)

Areas under joint control
Fujairah and Sharjah
Oman and Ajman
Disputed areas (under Iranian administration)
claimed by Sharjah
claimed by Ras al-Khaimah



GDP \$402.3 bn (2013)
Population 9.3
million (2013)

<https://www.google.co.uk/search?q=uae+map&safe=strict&espv=2&biw=1366&bih=623&source=lnms&tbo=isch&sa=X&ved=0ahUEwiah-iEl8DMAhUDuhQKHYsjBB>

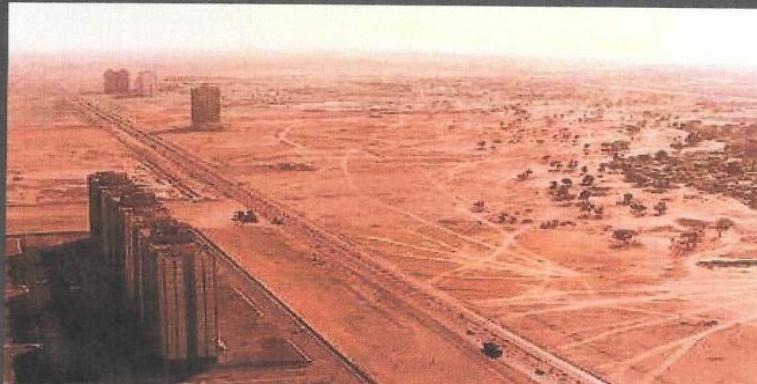
Dubai Before and After

DUBAI BEFORE AND AFTER

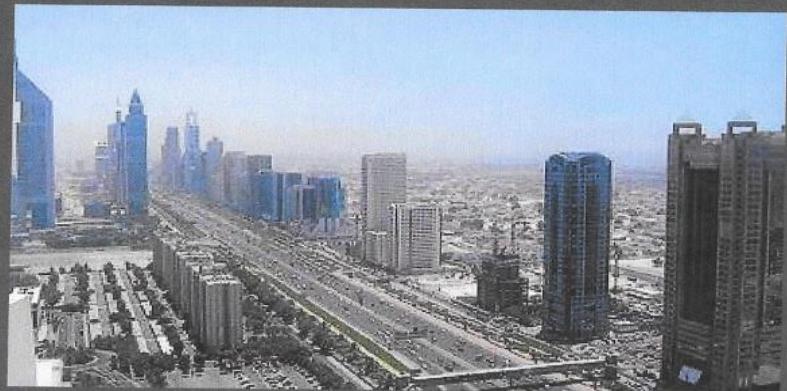
 Knight
Frank



VS



VS



Issues

Dubai is a trading emporium in an open economy. Growth challenges include stressed environment and a volatile region. As its real estate market matures, richer and more reliable information is required for analysts and valuers to judge the impact of macro economic pressures, volatile capital markets and major projects in complex, dynamic spatial markets

A robust UAE Residential Valuation System (RVS) can mitigate the risk of unhelpful volatility, speculative excess or investment mistakes. The research outlines the institutional, dynamic and other issues at play.

Is the current Emirati residential valuation system appropriate? [RQ_{main}]

Main research objective

- Investigate and evaluate the Emirati residential valuation system

Objective 1

- Identify the UAE-RVS issues and scope the research problem

Objective 2

- Review literature on real estate markets and valuation standards to develop a draft explanatory framework
 - RO2.1: Real estate [Chapter 2]
 - RO2.2: Valuation standards [Chapter 3]
 - RO2.3: Draft conceptual framework [Chapter 3]

Objective 3

- Review Dubai backdrop and analyse its residential housing markets

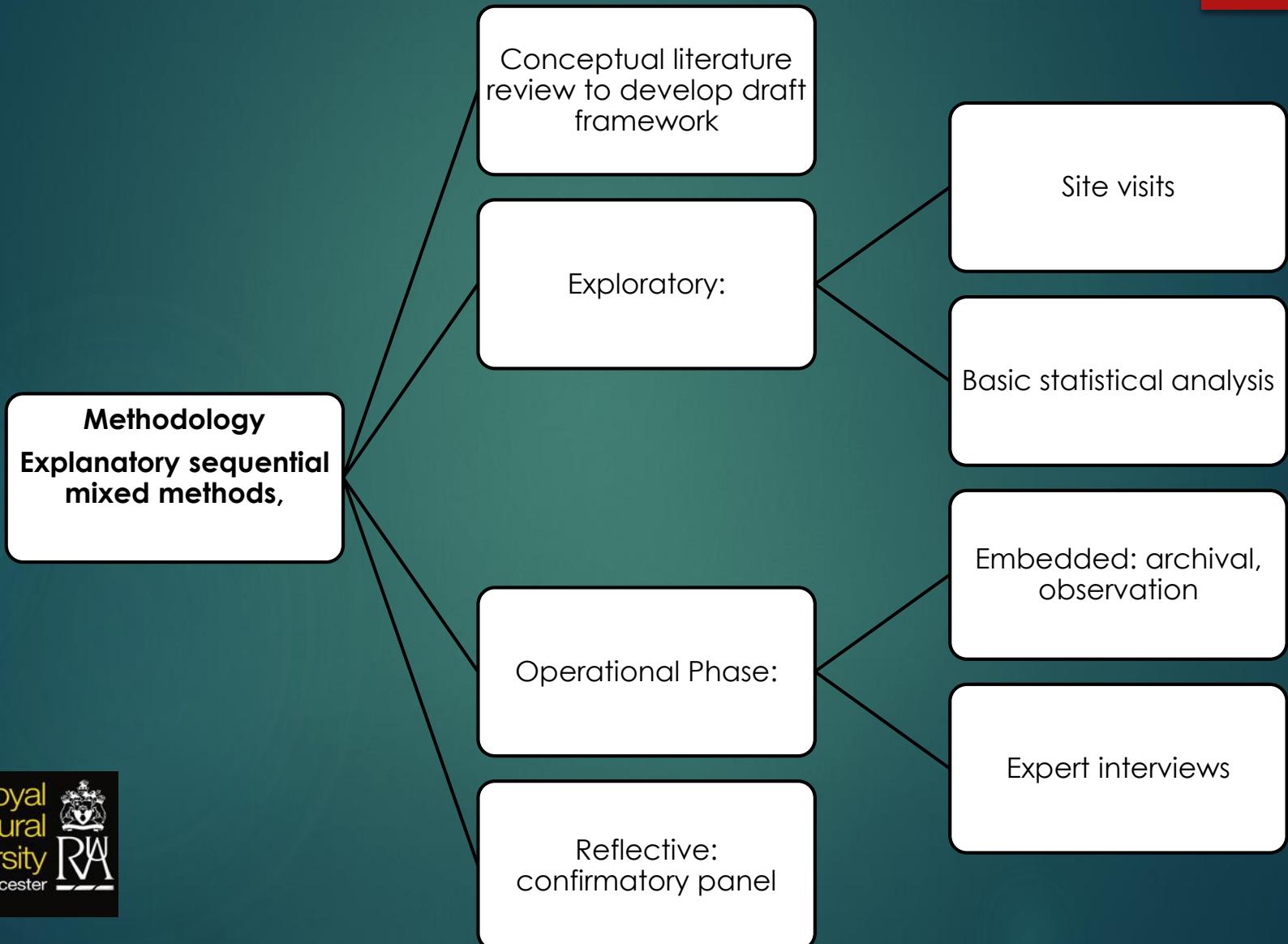
Objective 4

- Investigate the UAE RVS through embedded observation and stakeholder interviews

Objective 5

- Reflect on institutional issues, validate findings and make recommendations

Research Methodology



RVS principles

Principal 1: Outcomes reasonable

- Valuations reasonable compared to realised prices

Principal 2: Intelligence

- Access to rich information field of quality and systematically updated data

Principal 3: Capabilities

- Governance, professional staff, sound administrative practices, technological adaptation and meta-cognition to cope with complex problems

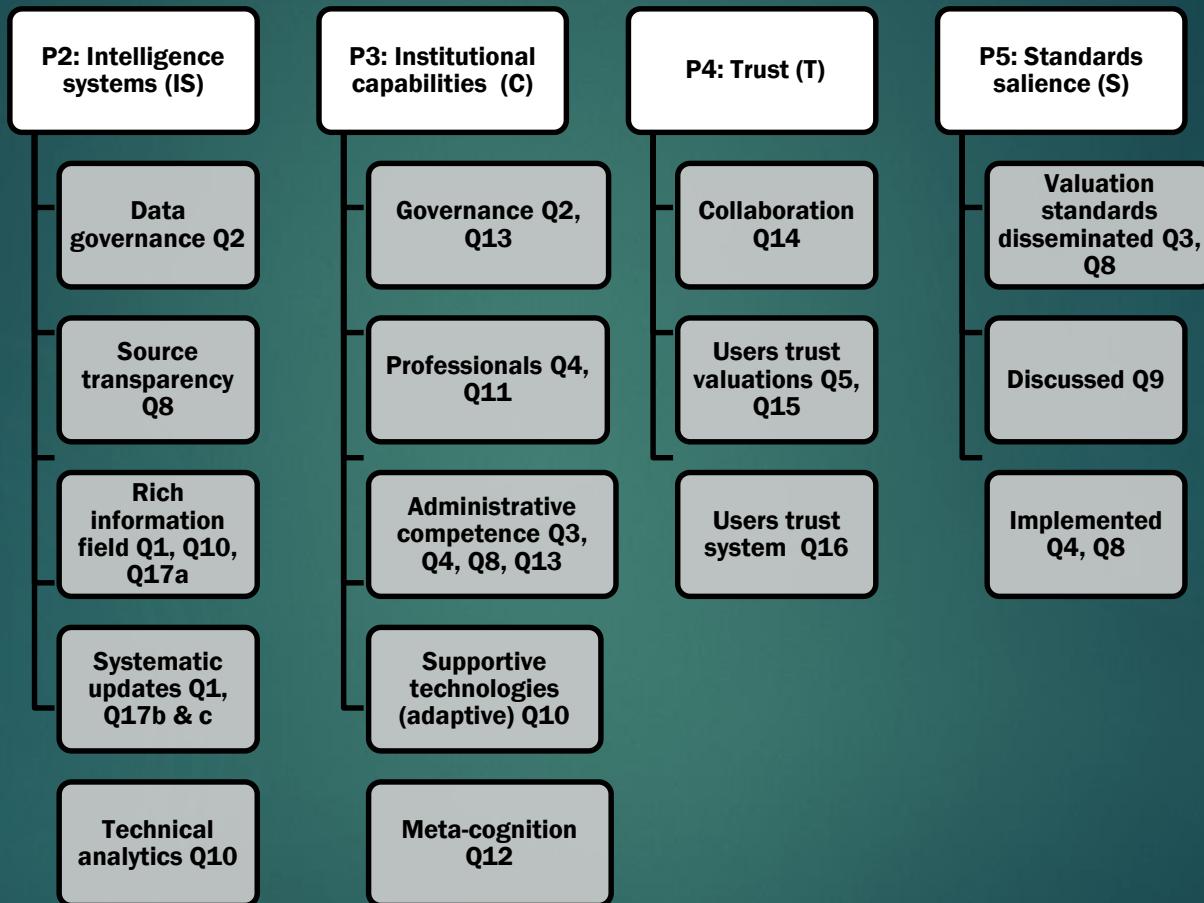
Principal 4: Trust

- Users trust valuation outputs and system institutions

Principle 5: Standards salience

- Valuation standards and best practice are widely disseminated, discussed, adopted and implemented

Toolkit

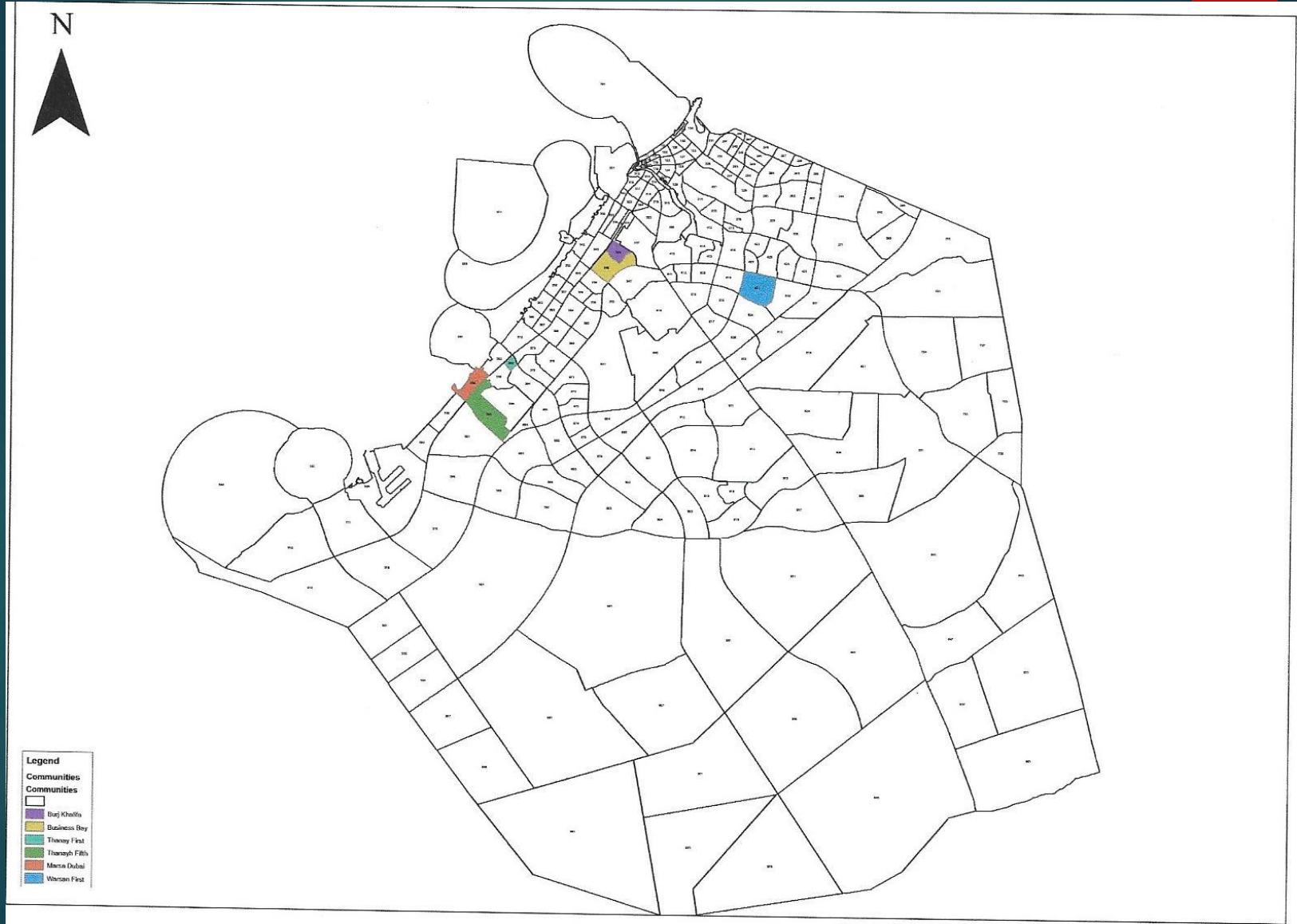


Exploratory Phase

- ▶ **Stage 1**
- ▶ Preliminary site visit [practical] to establish general market conditions, make contacts, observe and discuss issues and secure data
- ▶ Secondary examination of the Emirates' economic backdrop and qualitative examination of its property market to establish how the structure and dynamics of the UAE housing markets influence values? [RQ3.1]
- ▶ Primary qualitative investigations into a sample of Emirati sub-markets (photos, site visits and expert discussions)

- ▶ **Stage II**
- ▶ Quantitative analysis of transaction prices and market values, looking to:
- ▶ Understand market structure and dynamics Examination3
- ▶ Establish the reliability of Dubai Land Department ('DLD') valuations Examination4

CASE STUDIES – 5 LOCALES



WARSAN FIRST MAP



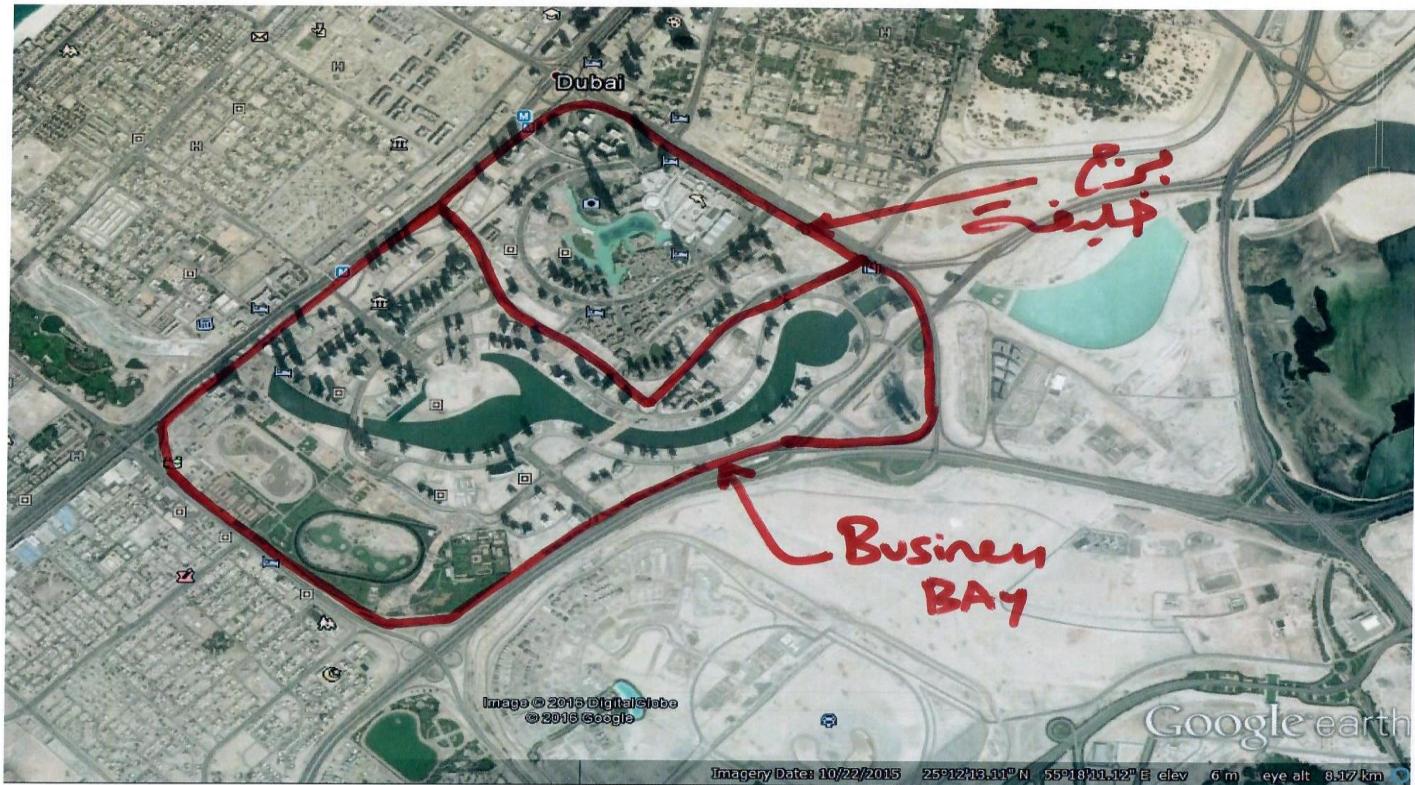
Third Thaniya map



FIFTH THANIYA MAP



BURJ KHALIFA MAP



DUBAI MARINA MAP



Results: Exploration I (qualitative)

- ▶ Emirati property markets are prone to exogenous risks and spatially polarised or segmented
- ▶ Dubai's dwelling stock is diverse (structure, design and build quality, energy-efficiency, tenure mix). Spatial differentiators include density, status (socio-economic profile), risk exposure (waste dumps), access to jobs and facilities, air quality, views and cultural fit.
- ▶ The implication is that Emirati property professionals need access to a rich and continuously updated information field.

Results: Exploratory Stage II: statistical market analysis

- ▶ The research analysed thousands of Dubai residential market sales from 2007 to 2014 in five Emirati locales to strengthen initial qualitative submarket analysis and assess the reasonableness of valuations
- ▶ Practically, the research conducted five exploratory examinations. Statistically analysis confirmed submarkets. Regression models suggest Locales is a significant price predictor
- ▶ As expected, upper-floor Burj Khalifa properties are outliers. The research checked a sample of valuations using OLS and ALM techniques and found them reasonable compared to realised prices [RQ3.2] but transaction outliers suggest system output issues [RVS Principal 1]

Operational Phase

- ▶ **Stage I** Embedded DLD research (2015)
 - ▶ Scrutiny of archival material to evaluate record keeping (valuation paperwork)
 - ▶ Tracing sample of transactions
 - ▶ Attendance at meetings
 - ▶ Observation of valuation administrative practices such as valuation procedures and standards implementation
 - ▶ Discussions with Emirati practitioners about valuation issues
- ▶ **Stage II** Semi-structured expert stakeholders interviews (2016) to ascertain system operations and evaluate expert practitioner views on matters linked to RVS framework:
 - ▶ Information systems
 - ▶ Institutional capabilities (governance, qualifications, practices, technologies, cognition)
 - ▶ Trust between various stakeholders (banks, developers, planning authorities and real estate agents).
 - ▶ Valuation standards, discussion, dissemination and implementation

Results: Operational Phase

Embedded research

- ▶ Embedded research was conducted 2015-16 at DLD (Dubai) and in professional practice (Fujairah). Specific tests included:
- ▶ Embedded Test_1 (EB1) Archival research (granting access to DLD and Emirati valuation documentation)
- ▶ Embedded Test_2 (EB2) Observation of DLD committees, administration procedures and valuation practices
- ▶ Embedded Test_3 (EB3) Preliminary discussions with valuers, and the broader RVS community in DLD as well as wider discussions with a range of RVS players
- ▶ Embedded research found reasonably qualified staff and technological support but some concerns about the separation of powers (governance) during DLD valuation process

Results: Operational Phase

Interviews

- ▶ Instrument guided by RVS Operational Test Kit (Fig. 3) based on Principals 2-5 (Fig. 1)
- ▶ P2: Intelligence systems ('IS') - data governance, source transparency, rich information field, systematic updates, analytics (statistics/ forecasts / modelling)
- ▶ P3: Institutional capabilities ('C') - governance, professionals, administrative competence, supportive technologies (adaptive) and meta-cognition
- ▶ P4: Trust ('T') - collaboration, users trust valuations, users trust system
- ▶ P5: Standards salience ('S') - valuation standards disseminated, discussed, implemented



Purpose of the Focus Group Meeting

This meeting aims to further discuss the preliminary findings and engage with key stakeholders

It allows further insights into stakeholders' shared perception and expectations about valuation systems in Dubai

Explores potential collaboration for the future

Theme A: Vision and Challenges for RVS

The consensus gathered from the interviews suggest that there are areas for RVS improvement

Points for discussion:

- Does DLD adequately support industry?
- **Is the current RVS system fit for purpose?**
- What are the current challenges?
- How can the system be improved?

Theme 1: Valuations

The research found that despite a lot of market uncertainty, DLD valuations were reasonable.

Points for discussion:

- In your experience, what are the challenges facing valuers in Dubai?
- **Do you have confidence in DLD valuations?**
- Are there any issues which concern you?

Theme 2: Information systems

Valuers depend on quality and up to date market or other information to make assessments.

Points for discussion:

- Do you get access to adequate property information?
- **Could DLD be more supportive and provide more information to stakeholders?**
- What are the main benefits of better information systems for businesses and the projects?

Theme 3: Capabilities

The RVS relies on institutional capabilities related to governance, HR and systems.

Points for discussion:

- What type of support should DLD provide to ensure effective valuations?
- What are the main constraints limiting RVS performance?
- **How can your organization's capabilities be improved?**
- What are the emerging best practices from the wider national and international experience?

Theme 4: Trust

Trust in valuations and between government and private sector improves the RVS

Points for discussion:

- What are the most important constraints undermining trust in valuation system?
- **To what extent do you trust the RVS in general?**
- What lessons can be learnt from failed projects or inflated valuations?
- What extra resources builds trust in valuations of complex projects?

Theme 5: Standards salience

The salience (prominence) of valuation standards is important for a robust RVS

Points for discussion:

- In your experience, how important are valuation standards?
- **How often do you consult valuation standards in practice?**
- How should UAE valuation standards differ from international ones?
- What is impact of Arabic culture?

Results: Panel

(provisional based on
71.6% panel transcript text
analysis)

**Confirms
importance of
four
principles but
professional
META-
COGNITION
emerges as
new finding
for improved
RVS**

CONSTRUCT	CATEGORY	C	P	R	Y	OS	F	M	Total	
OUTPUT	OUTPUT	1							1	1
INFOSYSTEMS	INFO	1		2	1	2	1		7	
INFOSYSTEMS	DBASE				2				2	
INFOSYSTEMS	INTEGRITY				1				1	
INFOSYSTEMS	DATA	1	2	1		4		2	10	
INFOSYSTEMS	TRANS		1	1					2	
INFOSYSTEMS	OUTLIERS					1			1	
INFOSYSTEMS	TECH		1						1	
INFOSYSTEMS	INDEX		1		1				2	
INFOSYSTEMS	EVOL	2	2		1	1			6	
INFOSYSTEMS	LOCATION						1		1	
INFOSYSTEMS	RERA								3	3
INFOSYSTEMS	REDIN				1	1		1	3	
INFOSYSTEMS	MILESTONE					1			1	40
CAPABILITY	EXPERIENCE				1				1	
CAPABILITY	COMPETENT					1			1	
CAPABILITY	COMPETENCY	1					1		2	
CAPABILITY	CPLEX	1							1	
METACOGNITION	FIRESALE					2			2	
METACOGNITION	PROPQUAL					1			1	
METACOGNITION	BUBBLE							1	1	
METACOGNITION	DISCUSS					1			1	10
TRUST	SKEPT						1	1	2	
TRUST	CHECK						1		1	
TRUST	DEEDS	1	1						2	
TRUST	TRUST	2	1		4	1	1		9	
TRUST	ARMSLENGTH					1	1		2	
TRUST	INDEP			2					2	
TRUST	VALCERT	1							1	19
STANDARDS	MORTGAGE				1		1		2	
STANDARDS	STD	1	1		1			1	4	
STANDARDS	COMPARISON	1		1	2	1			5	
STANDARDS	MKTVAL	1	1	1		1			4	
STANDARDS	FAIRVAL	1	1	1					3	
STANDARDS	VALBASIS	1							1	
STANDARDS	VALMETH		2		2				4	
STANDARDS	VALREPORT	1							1	
STANDARDS	LTV					2			2	
STANDARDS	INCOME				1	1			2	
STANDARDS	DCF				1				1	
STANDARDS	PROFITS				1				1	
STANDARDS	COST				1				1	
STANDARDS	RICS				1				1	32

RESEARCH FINDINGS and committee validation

Market development important for sustainability

Implementation of current policy initiatives

Integration and collaboration between government departments

Improved information systems architecture

Meta-cognition in complex and dynamic market

Encouragement of locals to enter the property professions

Ongoing training and education

Dissemination of reliable property information and valuation standards.