

A Decade In The UAE

Over the last decade, the UAE's non-oil sectors have been the driving force behind the UAE's economic growth and have managed to outperform the oil industry. Since striking oil in the late 60's, there's been a diminishing dependence on the black gold, and a mandate from the ruler of Dubai to cement the UAE's place on the world's global economic stage. The UAE operates with a basic, but very successful growth strategy – if you build it, they will come.

Dubai in particular, has rapidly become a hub for businesses across almost all sectors, looking to locate in the Middle East. In 2014, the UAE's GDP grew by 4.6%, with non-oil sectors growing at 5.9% growth (compared to 5.4% in 2013)¹. With such impressive growth rates, the UAE is now widely recognised as a serious contender in a number of global economic indices. The UAE ranked 11th globally in the Foreign Direct Investment Confidence Index (FDICI) and was reclassified as an Emerging Market by the MSCI 18 months ago. Dubai will also be hosting the World Expo in 2020 as well, and Qatar's successful bid to host the 2022 World Cup is the icing on the cake for the UAE's seemingly unstoppable economic growth; which will undoubtedly result in an increase in the number of visitors to the country – with the biggest increase expected in Dubai.

Increased market confidence and a rise in the number of firms locating in the region has resulted in an increase in the population of expatriates residing in the country. Data from the International Monetary Fund (IMF) shows that in 2003, approximately 800,000 expats were recorded as working in the private sector, and 30,000 in the public sector, across Dubai and the Emirates' capital - Abu Dhabi. In 2014, eleven years on, 3.4 million are officially recorded as employed in the private sector, and 100,000 in the public sector. The expatriate private labour market participation in Dubai and Abu Dhabi has increased by 325% since 2003.

With an influx of firms, expatriates and rapidly growing sectors, the UAE has evolved into the region's most attractive hub for global firms, setting up shop in the region, looking to competitively attract and retain the right type of people

for their local operations. But with all opportunity, comes challenge and adversity. Rapid inflation, continually updated labour rules, along with competition from neighbouring Qatar & Saudi have only served to increase the importance of having an informed and targeted C&B strategy with the UAE². Removing any local market asymmetry and having access to accurate and detailed data on the cost of living each year, prior to making adjustments and affecting local C&B strategy, is every global HR, mobility and rewards specialist's starting point. One component of an effective rewards policy is of course setting the right allowances – and there's no better starting point than the UAE's buoyant accommodation sector, which is what we'll examine first.

Accommodation – A Global Comparison

One of the most fluctuating sectors, which directly affects the welfare of expatriates and the remuneration policies behind their cost of living, is the accommodation sector. Not only is it a volatile market, it also consumes a significant portion of household disposable income for expatriates in the country. A Cost of Living Middle East Survey in Q2 2014, showed that expatriates in Dubai and Abu Dhabi spend approximately 36% of their annual income on housing³. This is compared with an average of 24% in London, 22% in Toronto and 33% in New York⁴.

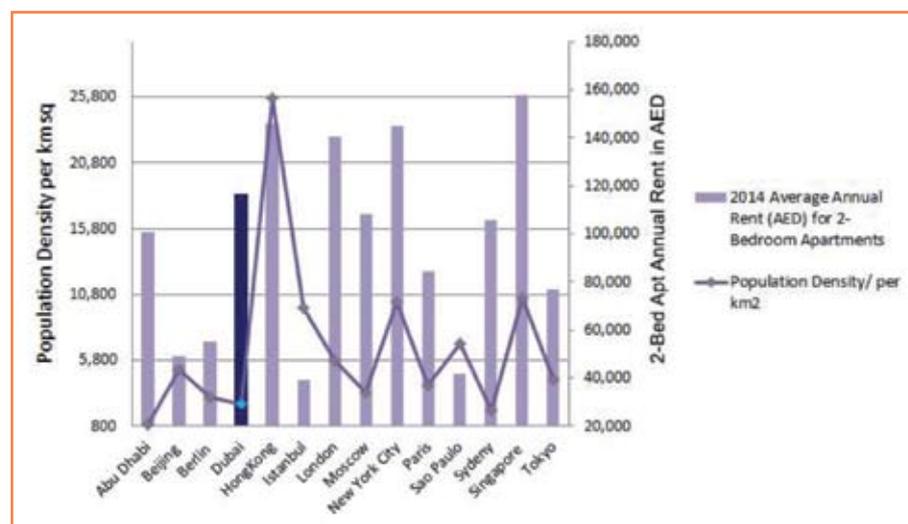
This year, The Cost of Living UAE Report 2014 - 2015 includes almost a

decade's worth of time-series analysis, showing price fluctuations for both the rental and freehold markets. In Dubai alone, since 2009, the stock of regular property has increased by 25% and luxury property has soared by up to 75%. Occupancy rates in the city have remained around the 70 - 82% mark, yet in the last year alone, despite the new stock entering the market and the 18 - 30% vacancy, we've witnessed an average 42% rise in rental rates, and 28% rise in freehold prices. In an attempt to show that it's not simply a demand-driven hike, we have compared Dubai & Abu Dhabi to other global metropolitan cities. The graph below shows various population densities for a number of global cities, and the relative average rental cost for a 2-bedroom apartment within these cities⁵. What we can observe below, is that despite the fact that neither Dubai or Abu Dhabi are densely populated, their average rental rates when compared to other metropolitan cities are disproportionately high⁶.

It's not only households who are concerned with this anomaly; C&B Managers, Reward Specialists and Global Mobility decision makers with a UAE labour force have to continually keep up-to-date with changing trends by ensuring that they are providing competitive remuneration packages for their staff – with a particular focus on the local housing market, which is the single biggest influence on their employees' accommodation allowance.

Accommodation – Local Comparisons

Global comparisons are of course



important for perspective; however, local comparisons are arguably more important because each and every market is different and requires local knowledge and local data, from locally based researchers. The Cost of Living UAE Report 2014-2015 aggregates the masses of data coming out of the UAE, Qatar, Saudi and rest of the GCC, to report on what's actually happening in detail. As an example, the graph below shows annual rental rates by residential area for 2-bedroom apartments in Dubai, over the past 7 years. The full report provides the same data for all of the UAE's 7 Emirates, covering all apartment and villa sizes, for rental, freehold and commercial property.

One key observation in this comparison is that across the board, whilst there has certainly been a Y-O-Y rise in 2014 compared to 2013, the rental rates are still not back to the 2008 levels, pre-recession, just before the property bubble burst. And if there were any seeds of doubt about Dubai and the UAE's recovery from the 2008 crash, there certainly aren't now.

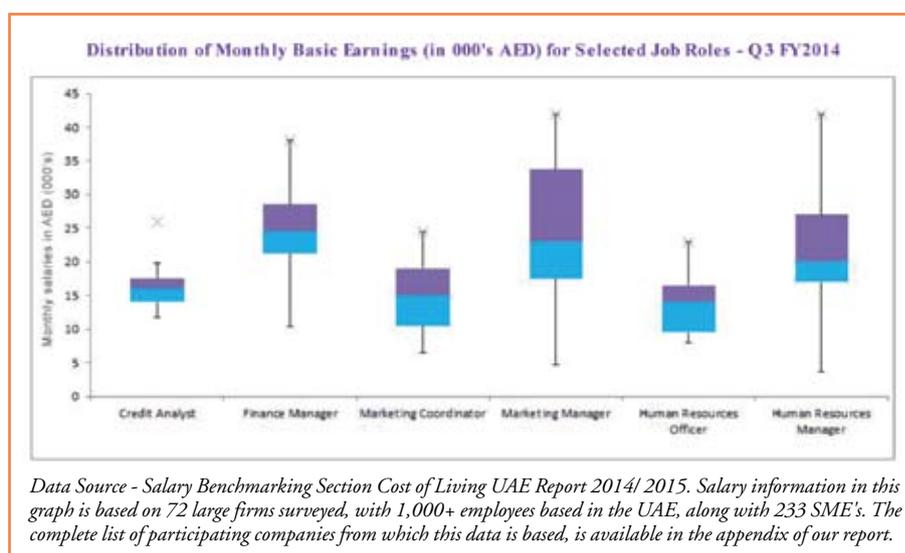
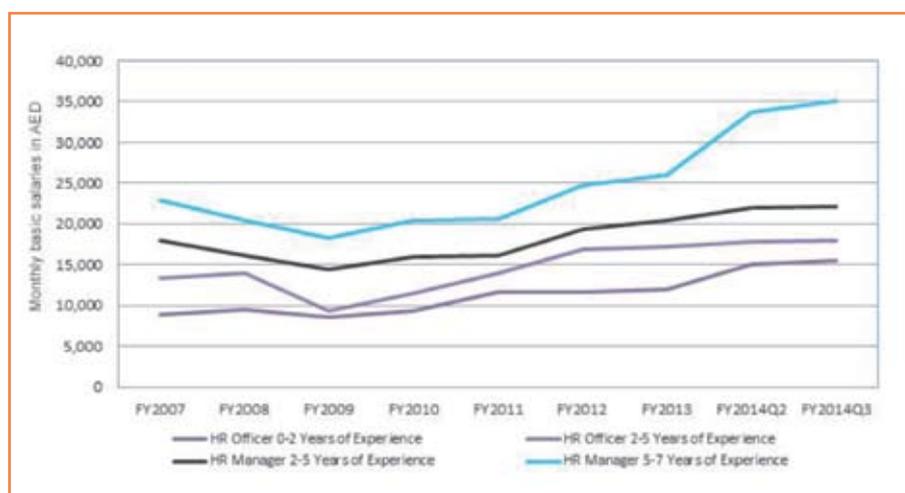
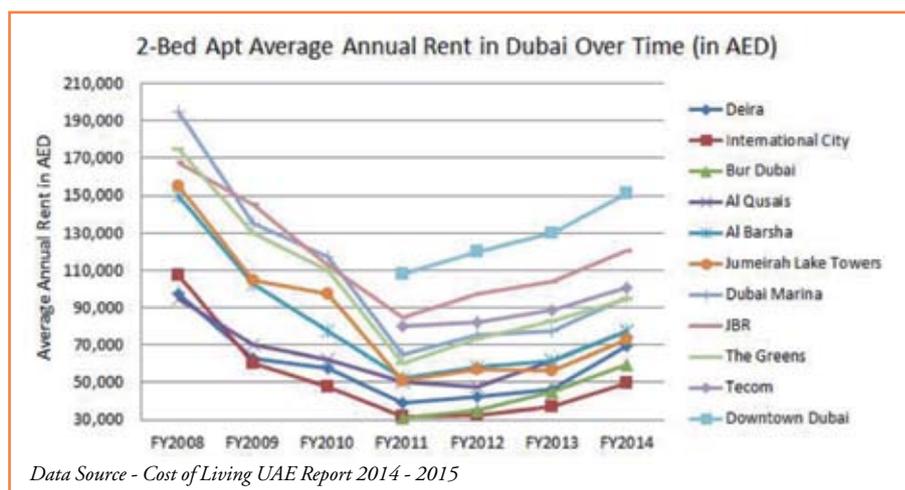
Salary Benchmarking

The report covers salaries by firm size, and experience level for 200+ job roles. The salaries reported reflect the median wages in the population within that fiscal year. A time-series demonstration is available (see middle chart), for two Human Resource roles.

In an ideal world, salary trends would mirror the economy's inflation rate, leaving the real wage somehow predictable and stable. But with a scarce volume of talent across senior positions, and a predominantly young labour market, large firms are paying a premium to keep their labour turnover rates low, and attract high quality talent. In the Cost of Living UAE Report 2014 - 2015, we attempt to answer questions such as, what occupations have the highest variance in terms of earnings? What is the salary premium paid by large firms, for specific roles? Do employees with different levels of experience face different earnings trajectories, within the same occupations?

Variance In Earnings Across Occupations

Reporting median wages is an important requirement for Global Reward Specialists with a UAE labour force, but having an understanding of the wage variance among specific roles is what can give an employer the edge it requires to



attract and retain the right talent. A small earnings variance indicates that the data points tend to be very close to the Mean (expected value) and hence to each other, whilst a high earnings variance indicates that the data points are very spread out around the Mean and from each other. A small earning variance would indicate that everyone in the labour market, for a given position, gets paid relatively the same

amount. However, a high variance would in fact indicate a wide dispersion of salary levels and a large difference, and therefore potentially more market uncertainty. At Cost of Living Reports Middle East, we wanted to study the earnings variance across different job roles for FY2014. The graph above shows a box plot of monthly salaries in (000's) UAE Dirhams, for a selection of job roles:

In the UAE, whilst compensation across most junior roles doesn't vary much, large salary variation across Marketing & HR managerial roles can certainly be observed in the local labour market.

References:

[1] *World Bank Indicators*: <http://data.worldbank.org>

[2] For more information on Labour Law updates in the UAE, health insurance amendments, and CPI data please see our Cost of Living Report UAE web page: <http://www.costoflivingreports.com/cost-of-living-report-uae.php#overview>

[3] *The Mid-Year Cost of Living UAE Report 2014*

[4] Data on Average Portion of Disposable income allocated to accommodation was obtained from The OCED Better Life Index, and combined with The Cost of Living Report Data for 2015

[5] Data on population density was obtained from UN-Habitat, a World Bank database, which reports population density, by city each year.



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Analysing the cost of living and all the various components which compromise a remuneration package is what Cost of Living Reports Middle East specialises in. Rather than dictating to our clients how to reward their staff, we analyse all the micro & macro-economic factors, changes in legislation and the current political climate to

assess how the local economies in the GCC have performed over the past 12 months, and what to possibly expect in 2015. The above analysis is a snippet of what our 180-page Cost of Living UAE Report 2014 - 2015 contains and is designed to help Global Reward Managers, Global Mobility professionals and any HR personnel with local labour in the UAE, achieve their corporate goals, by equipping them with accurate C&B adjustment suggestions, for the forthcoming financial year.

With 10+ years of cost of living trends in the Middle East, serving over 70 Fortune 500 clients, our reports, both quantitative & qualitative, provide insight into the socioeconomic, political & legislative reforms, for the UAE, Qatar, KSA and rest of the GCC.

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