

مؤسسة دبي للتنمية الاستثمار  
DUBAI FDI



إحدى مؤسسات دائرة التنمية الاقتصادية - حكومة دبي  
An Agency of the Department of Economic Development - Government of Dubai

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# CAPACITY TO GROW

Opportunities in Dubai's Private School Market





## The National Anthem of the United Arab Emirates - Ishy Bilady

Long live my country, live United,  
our Emirates

Your life for your people

Whose religion is Islam and  
whose guide is the Quran

We fortify you with the name of  
Allah, oh my homeland

My country, my country, my country,  
my country

Allah protects you from evil  
throughout time

Each of us swears to build you  
and work for you

Our work is pure, we work in  
purity

with all our lives, pure and  
unequivocal

The peace is everlasting and the  
flag lives on, my Emirates

You are the symbol of the Arab  
character

Every one of us sacrifices with all  
of our blood

We sacrifice with our very souls,  
oh, my homeland

## النشيد الوطني الإماراتي - عيشي بلادي

عيشي بلادي عاش اتحاد إماراتنا

عشت لشعب

دينه الإسلام هديه القرآن

حصنتك باسم الله يا وطن

بلادي بلادي بلادي بلادي

حماك الإله شرور الزمان

أقسمنا أن نبني نعمل

نعمل نخلص نعمل نخلص

مهما عشنا نخلص نخلص

دام الأمان و عاش العلم يا إماراتنا

رمز العروبة

كلنا نفيديك بالدما نرويك

نفيديك بالأرواح يا وطن



# ***CAPACITY* TO **GROW****

Opportunities in Dubai's Private School Market

A JOINT KHDA - DUBAI FDI PUBLICATION



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# FOREWORD



Education is a key contributor to the success of the UAE National Agenda and Dubai Strategic Plan 2021. Private schools in particular provide a remarkable contribution to Dubai's success, with most graduates admitted to prestigious universities in the UAE and across Europe, North America and Australia among other destinations.

Dubai's ever-growing and diverse population presents a unique investment opportunity for investors in the education sector, particularly in private schools providing world-class education. As part of our commitment to the UAE National Agenda goals and Dubai Plan 2021, DUBAI FDI is committed to promoting the private sector and establishing partnerships with investors who drive excellence in education.

In this joint report issued by the Knowledge & Human Development Authority (KHDA) - Government of Dubai and Dubai Investment Development Agency (DUBAI FDI), an agency of the Department of Economic Development in Dubai, you will find the information that substantiate Dubai's advantage as a location for private school investments.

Moreover, KHDA and DUBAI FDI advisors are happy to provide you with the insight and support needed to enable your success, growth and expansion in Dubai, the UAE and across regional and international markets.

I hope this report gives you a fruitful and rewarding reading experience and I looking forward to connecting with you.

Thank you

**Fahad Al Gergawi**

Chief Executive Officer

Dubai Investment Development Agency

# FOREWORD



Since KHDA was established in 2007, we have focused on ensuring that all students in Dubai's private schools have access to high quality education. Regular school inspections have created a shared language to talk about school quality, and provided parents with an invaluable source of information to support them in choosing the right school for their children. More than 70 new private schools have opened in the past ten years, catering to the needs of a growing population that demands quality and choice.

A first-rate education sector enables the next generation of global and Dubai residents to gain the skills they need to make valuable contributions to our community and lead happy, productive lives. It will also continue to attract skilled professionals to Dubai, allowing our city to grow and be at the forefront of a future that is hurtling towards us at an ever-increasing rate.

There is sufficient demand in Dubai to meet increased supply of private schools. A dedicated in-house team at KHDA – ForwardED – helps new investors to better understand the market, provides thorough data and assists with the process of opening a private school in Dubai. This partnership with the investment community will help build the next wave of high-quality private schools and ensure that we reach – and exceed – the targets of the 2021 UAE National Agenda.

## **Dr. Abdulla Al Karam**

Chairman of the Board of Directors and Director General  
Knowledge and Human Development Authority





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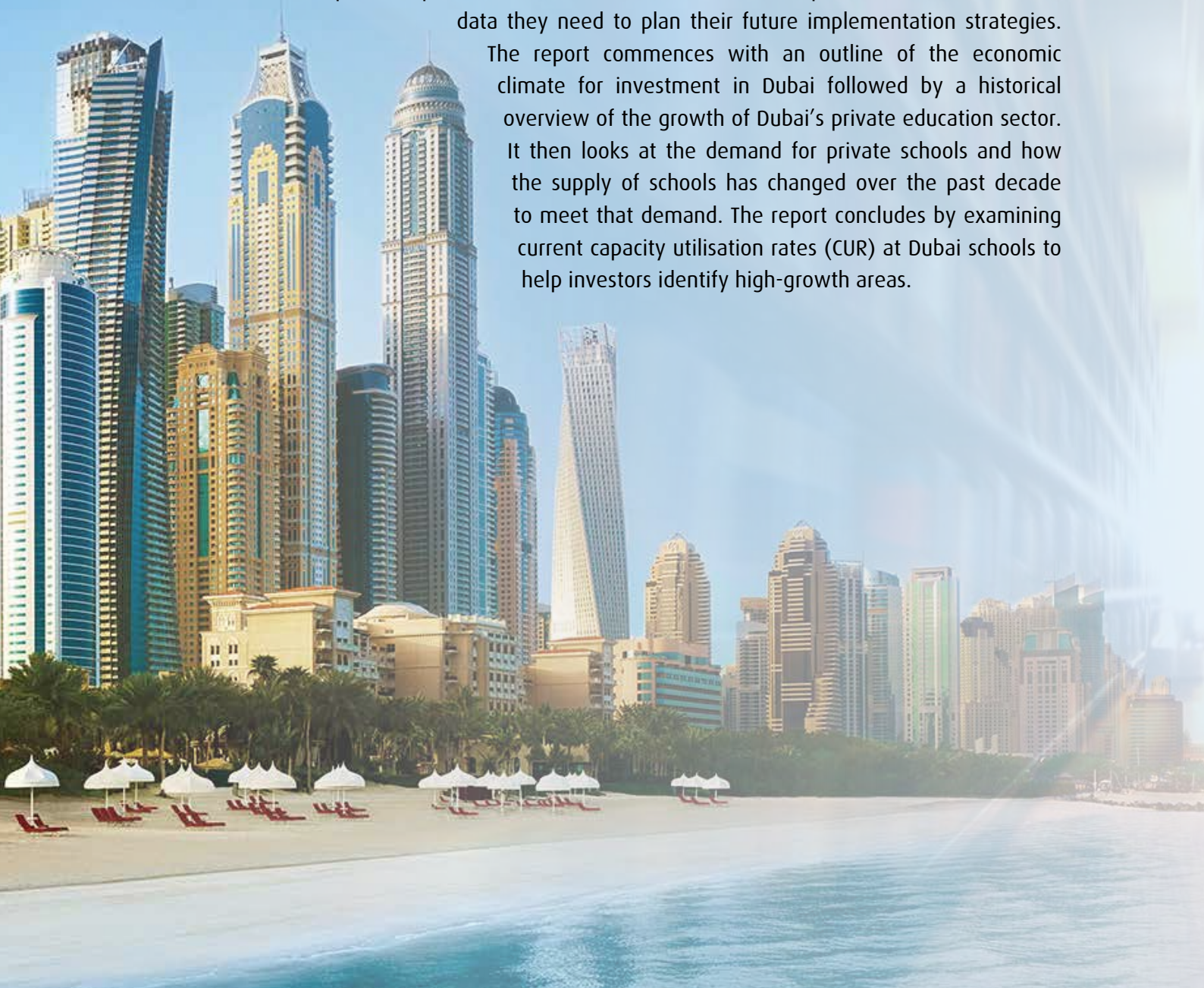


## INTRODUCTION

The story of Dubai's growth from a small seaside village of palm huts to a modern metropolis is well-known. As the city continues to advance, the strength of its economy will be underpinned by growth in the tourism, logistics and financial sectors. Dubai Expo 2020 is expected to bring further growth in the next five to 10 years, much of which will be focused on airports, hotels, theme parks and further diversification of the economy. What is less well-known is that the Dubai story would not have been possible without the parallel development of a high quality private schools sector. The attraction that many skilled professionals have towards Dubai is based not only on career advancement, but also on the unique learning opportunities the diverse schools sector gives to their children.

This report will provide education investors and school operators in Dubai with the data they need to plan their future implementation strategies.

The report commences with an outline of the economic climate for investment in Dubai followed by a historical overview of the growth of Dubai's private education sector. It then looks at the demand for private schools and how the supply of schools has changed over the past decade to meet that demand. The report concludes by examining current capacity utilisation rates (CUR) at Dubai schools to help investors identify high-growth areas.



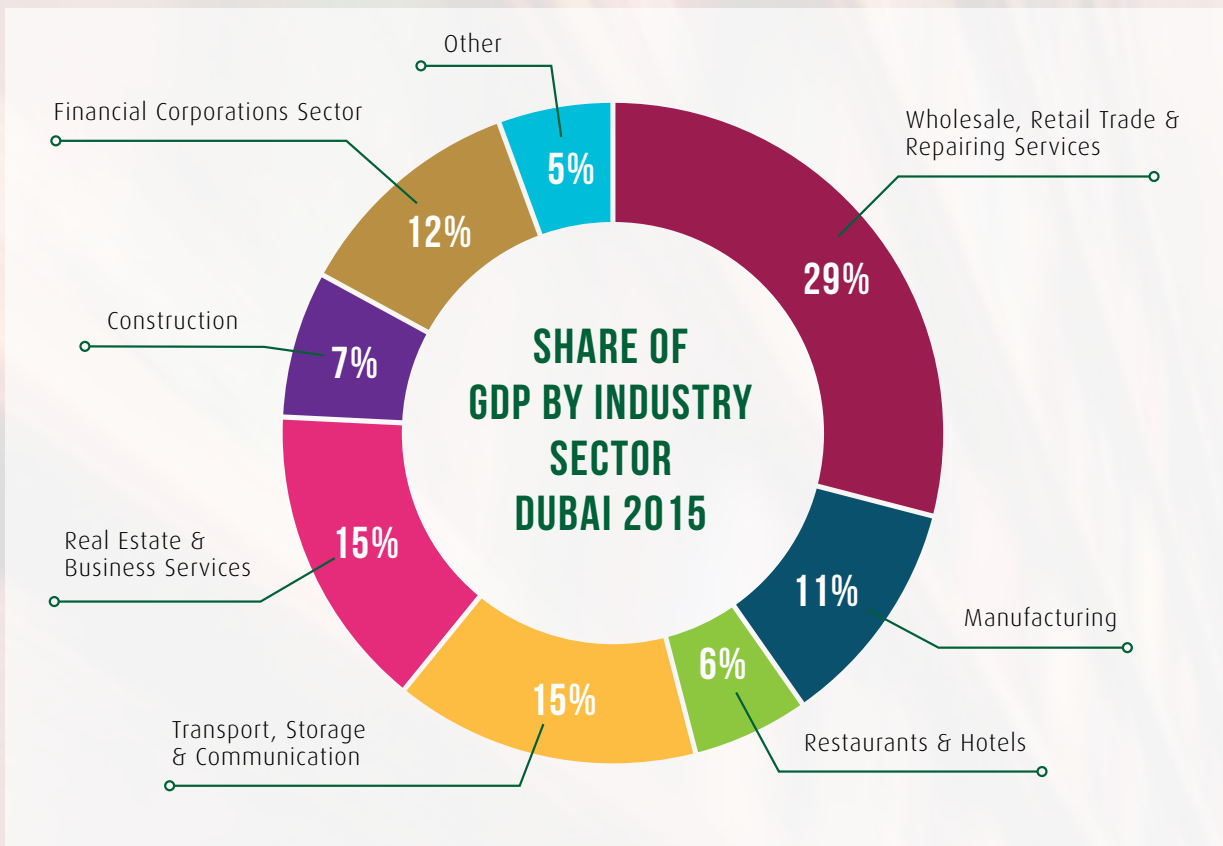




## DUBAI'S MACROECONOMY AND GROWTH PROSPECTS

More than three decades ago, Dubai's leadership embraced a strategy to diversify the economy away from oil and gas, which in the 1980s accounted for up to 55 per cent of the emirate's GDP. Diversification and sustainability have since remained the driving forces behind Dubai's economic development strategy.

As part of this strategy, the Government of Dubai has launched a number of initiatives and projects to develop infrastructure. New roads, ports, educational institutions, and medical facilities continue to be built. These projects are supported by appropriate governance systems and policies as well as a progressive regulatory environment that enables investors to do business in one of the most open economies in the world. This strategy has succeeded in reducing the share of oil in Dubai's GDP to less than 2 per cent of Dubai's total GDP of AED 367 billion, with the trade, real estate, logistics and financial sectors making up the backbone of the emirate's economy. The latest GDP statistics show that the transition of the economy towards a diversified production structure continues unabated and is accelerating.

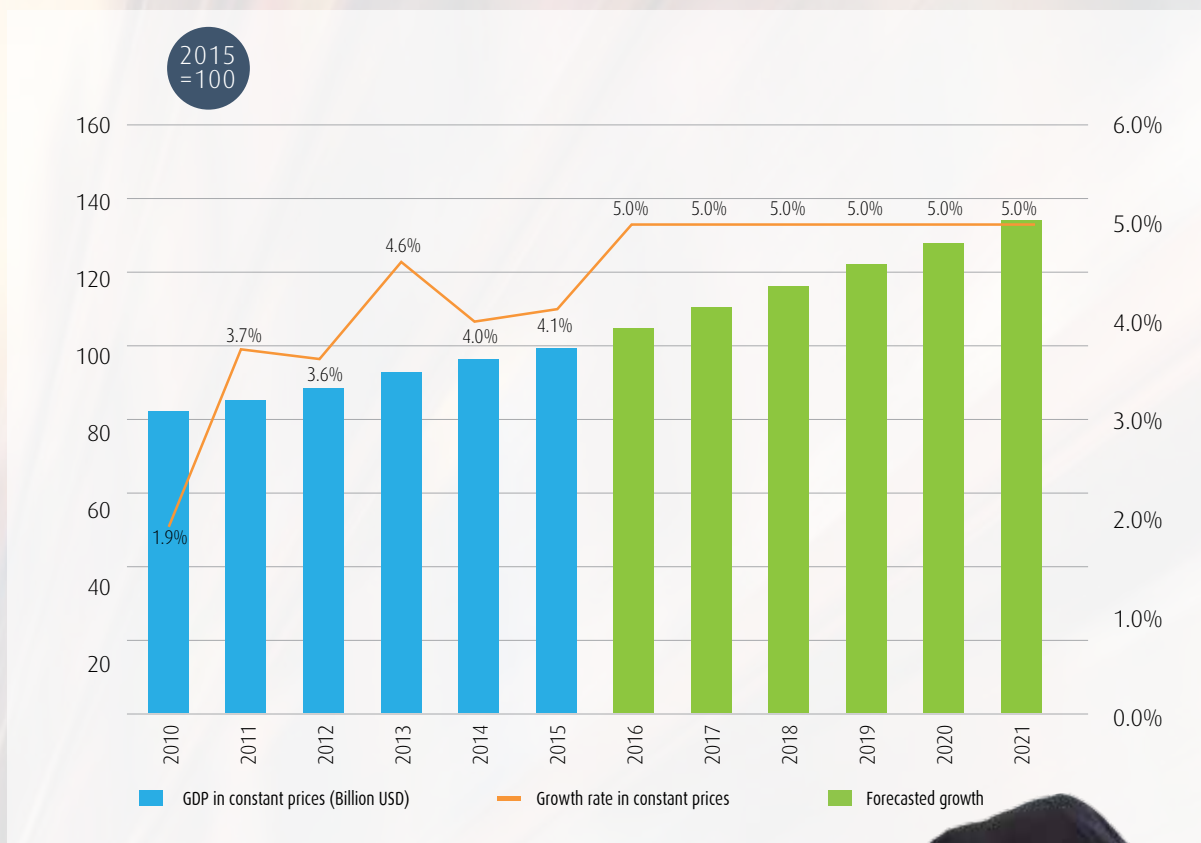


**Figure 1. Share of GDP by industry sector – Dubai 2015**

Retail and wholesale trade and repairing services are now the leading industries in Dubai, contributing 29 per cent of its GDP in 2015, equivalent to approximately AED 106 billion. Backed by Dubai Plan and Dubai Expo 2020, this figure is expected to increase to AED 140 billion by 2021. At 15 per cent of Dubai's GDP (AED 55 billion), the real estate and business services sectors make the second biggest contribution to the economy. The third largest contributor to Dubai's economy is the transport, storage and communications industry, worth AED 54 billion, or 14.8 per cent of GDP. Last year, Dubai welcomed 14.2 million tourists. The tourism sector made up 5.6 per cent of Dubai's GDP in 2015.

Figure 2 shows five per cent projected annual economic growth for Dubai to 2021. In 2015, the International Monetary Fund described the United Arab Emirates as one of the most diverse and competitive economies in the Middle East. The Ruler of Dubai, Vice President and Prime Minister of the UAE His Highness Sheikh Mohammed bin Rashid Al Maktoum has taken the strategic decision to transform Dubai into the world's smartest city. In June of this year His Highness launched the Dubai Industrial Strategy 2030, which aims to develop knowledge-intensive industries including aerospace, maritime, pharmaceuticals and medical equipment, and machinery. At its core, this strategy will provide Emiratis with project-based knowledge and skills, backed by first-rate education.





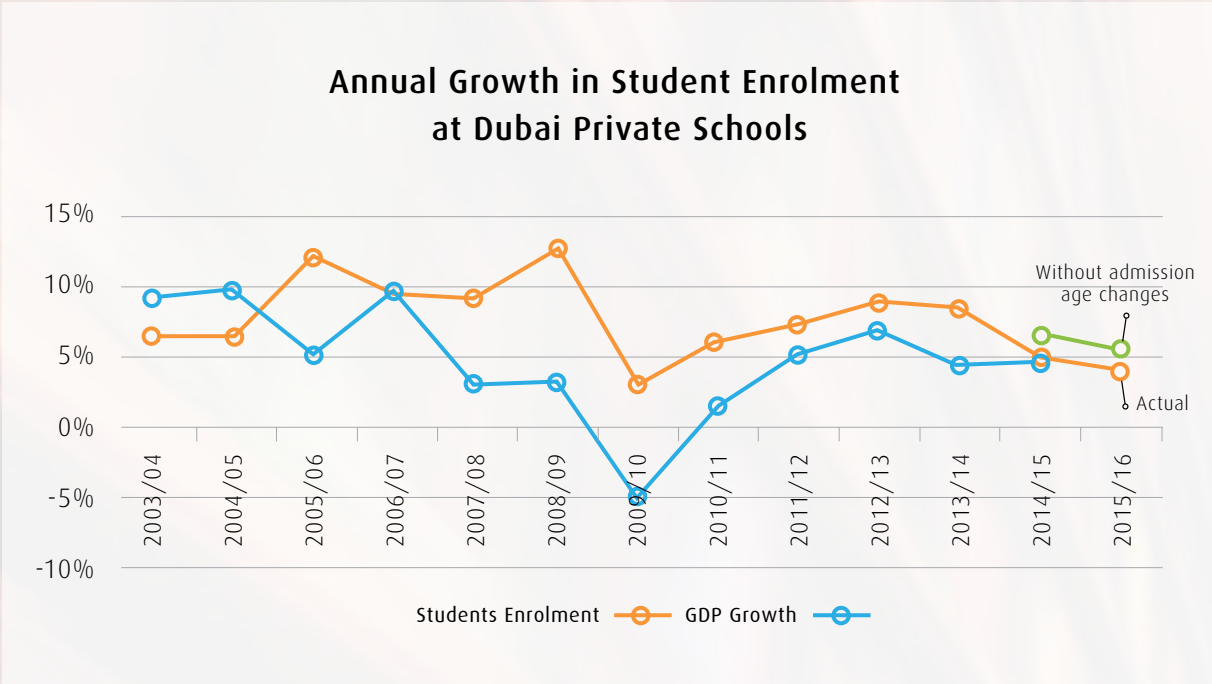
**Figure 2. Historical and projected growth of the Dubai economy**

## DEMAND FOR PRIVATE SCHOOLS

The growth of Dubai’s population has fuelled an exponential increase in the supply of schools. The first private schools in Dubai were established to serve early expatriate communities in the 1950s. Today, 90 per cent of school students in Dubai attend private schools. In addition, Dubai’s 185 private schools cater to more than half of all Emirati students.

Student enrolment at private schools in Dubai has doubled over the past decade. This compound annual growth rate of 7.2 per cent is consistently higher than annual GDP growth. When Dubai’s economy shrank in the economic downturn of 2008/09, student enrolment continued to grow, demonstrating the sector’s resilience in the face of changeable economic conditions.





**Figure 3. Comparison between annual student enrolment growth and GDP growth**

Over the past five years, growth in student enrolment has matched the consistency of growth in the Dubai economy. Slightly lower enrolment growth over the past two years is the result of an increase to the admission age for students starting school. Putting this change aside, annual growth in student enrolment nears 6% in each of the past two years. This reflects historical enrolment trends and is in line with Dubai’s stable economic growth.

Private school enrolment has been relatively consistent over the past eight years across all key demographic segments. Approximately one third of students are of Indian descent, while students from Pakistan comprise approximately 9 per cent of the overall student population. The growth in the enrolment of Emirati students is slightly lower than that of other nationalities, making up 12 per cent of all enrolment. More than 180 student nationalities are represented in Dubai’s private schools, highlighting the diverse nature of the population.

Dubai has far more students in earlier years of education, as would be expected from a population that is growing. There are more than twice as many students in Grade 1 as





there are in Grade 11, due to the influx of new students in earlier years. In general, the number of students in a specific cohort remains relatively constant over time, so that the number of students in Grade 1 will be approximately the same as the number of students in Grade 6 five years later. While new schools will naturally target younger students to boost enrolment numbers, they must also adapt their grade-level mix in later years to cater to their more senior students.

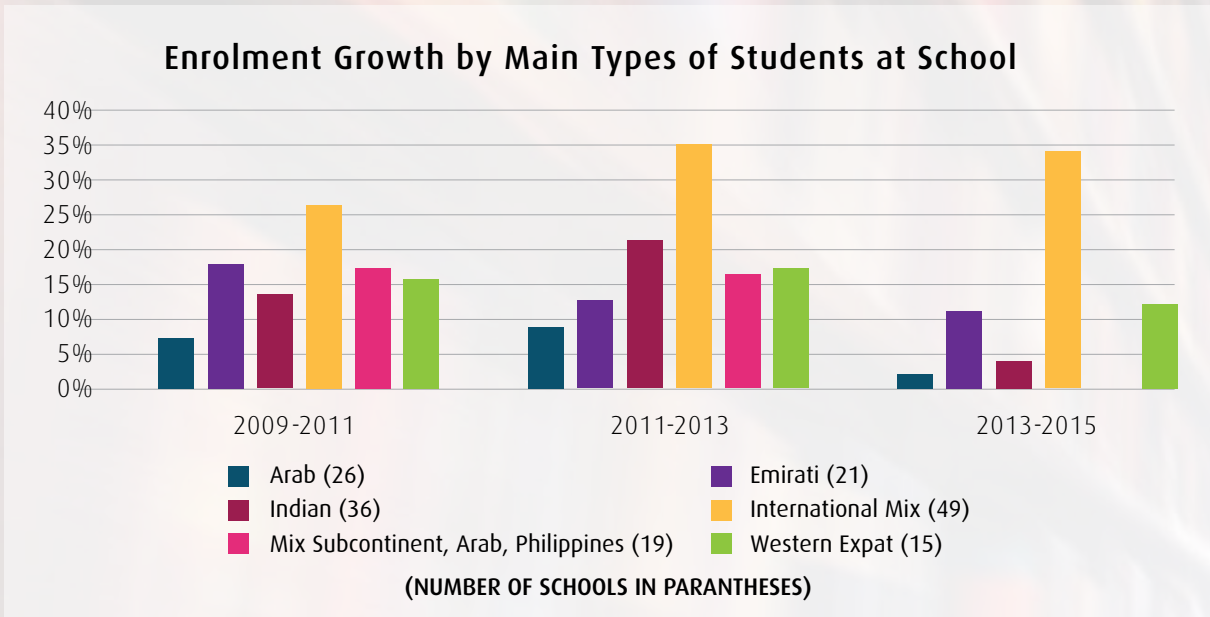
## CHANGES IN STUDENT ENROLMENT OVER TIME

Newer areas of Dubai have seen significant increases in population. Approximately half of total enrolment growth has come from families living in areas such as Palm Jumeirah, Dubai Marina, Jebel Ali, Emirates Hills, Dubailand, Nad al Sheba and Academic City. More established areas such as Bur Dubai, Deira, Al Garhoud, and Al Muhaisnah continue to experience modest growth. Thirteen per cent of Dubai's private school students live outside of Dubai – the majority in Sharjah - further highlighting the attraction of Dubai's schools.

The demographic makeup of students at Dubai schools has also changed in recent years. Historically, private schools were established to serve specific communities of students – Indian curriculum schools for students from India; US curriculum or UAE Ministry of Education schools for Arab and Emirati students; UK curriculum schools for students from Britain, and so on. Many of the more recently-established private schools cater to a more international mix of students, reflecting the diversity of Dubai's population. Schools with a diverse student population such as this have experienced higher enrolment growth in the last six years than any other type of new school in Dubai.



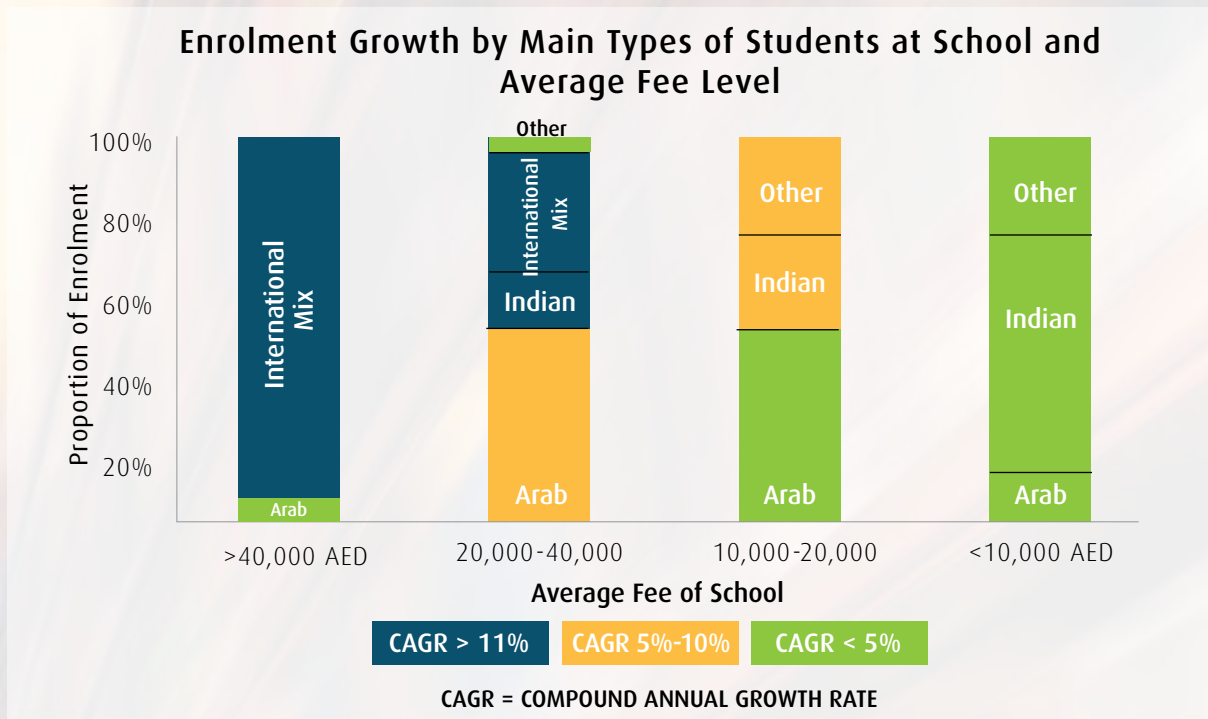




**Figure 4. Trends in two-year enrolment growth across schools with different types of students**

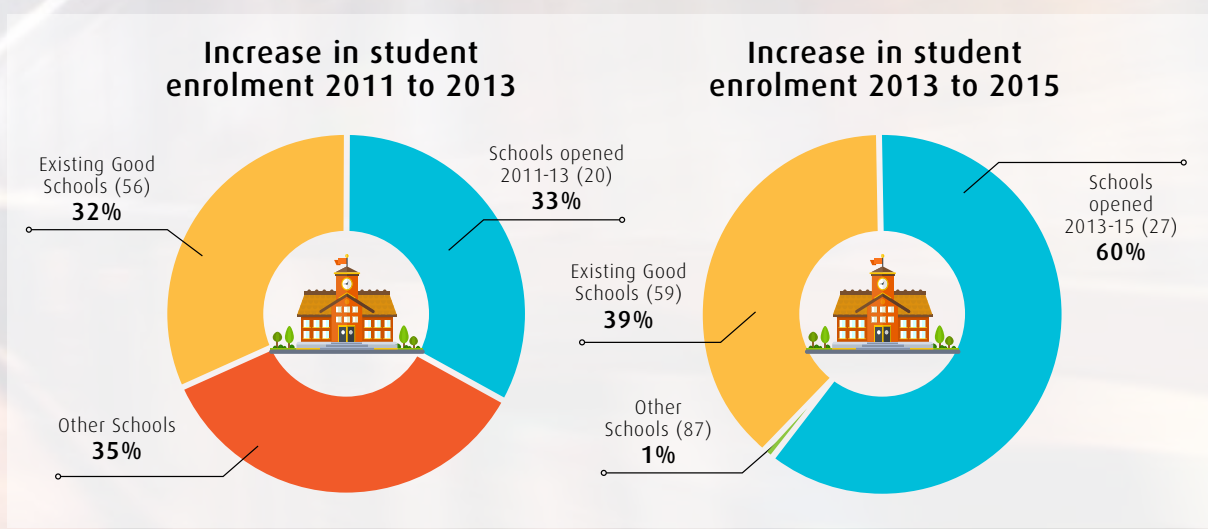
Schools that cater to an international mix of students tend to charge higher tuition fees than schools which focus on specific communities. The chart below shows that annual growth of these schools is above 11 per cent per year. In addition, higher fee schools which cater primarily to Indian and Arab students also have higher than average growth rates. By comparison, older, more established schools which charge lower fees have annual enrolment growth rates of less than 5 per cent overall. In part, this is because these older schools are relatively full and have little capacity for additional students. The greatest capacity and highest enrolment growth tends to be in newer schools, which also charge higher fees.





**Figure 5. Growth rates and proportion of enrolments by types of students and average fee paid**

Between 2011 and 2013, student enrolment growth was split equally between three types of schools: new schools, schools offering good or better quality of education, and other schools. However, from 2013 to 2015, 60 per cent of enrolment growth occurred in new schools, with the remaining 40 per cent in existing good quality schools. That there was no growth in existing schools shows that these schools are either full or their quality did not meet the expectations of parents. Preliminary data for the 2016/17 academic year shows that the trend towards a greater proportion of enrolment growth occurring in the new schools is continuing.



**Figure 6. Comparison of the distribution of the increase in student enrolment**



## CAPACITY UTILISATION ACROSS DUBAI'S PRIVATE SCHOOLS

Capacity utilisation rate<sup>1</sup> (CUR) is the term given to the measurement of how full a school or group of schools is, detailing the percentage of spaces taken up by students. If a school is completely full with an active waiting list of additional students, then it would have a capacity utilisation rate of 100 per cent. If a school has space for 1000 students and an enrolment of 500 students, then it would have a CUR of 50 per cent. Dubai's private schools sector currently has a total CUR of 89 per cent. If the overall capacity utilisation for Dubai is close to 100 per cent then there is little flexibility for parents to choose schools or for growth in the student population. On the other hand, a low overall CUR would reflect unproductive use of assets and little need for new capital investment. Dubai's figure of 89 per cent is relatively high when compared internationally and reflects a city with a growing student population and a need for additional capacity.

Specific groups of schools have higher CURs than others. The following chart contrasts each school type with its CUR. More than one-third (35 per cent) of the current capacity in Dubai's private schools sector is taken up by very low-fee schools for Indian students, and schools for a mix of students from the Indian subcontinent, the Middle East and the Philippines. Each of these categories is relatively full with a CUR of 92 per cent or more overall. Other schools with a very high CUR are existing outstanding schools not part of the above two categories.

Schools with high CUR tend to be those that have been established for a significant period, and with either low fees or high quality. Other schools with high CUR include those that offer a good or better quality of education, and those catering to Arab students that offer acceptable or weak quality of education, but charge low fees. These schools as a group have a CUR between 85 and 90 per cent. In total, they comprise 86 per cent of the supply of education places available for students. Yet due to their high CUR, only 63 per cent of all available spaces in Dubai's private education system are at these schools. In comparison, the remaining schools (other schools with an acceptable rating, and those new schools yet to be inspected) are less full with CUR of less than 85 per cent. New



schools that have not been inspected have a CUR of less than 60 per cent. New schools that have been established over the past two years have five per cent of the total available places on offer in Dubai's schools. With the long-term trend of student enrolment growth at around five per cent annually, it is clear that additional schools are required to meet future demand.

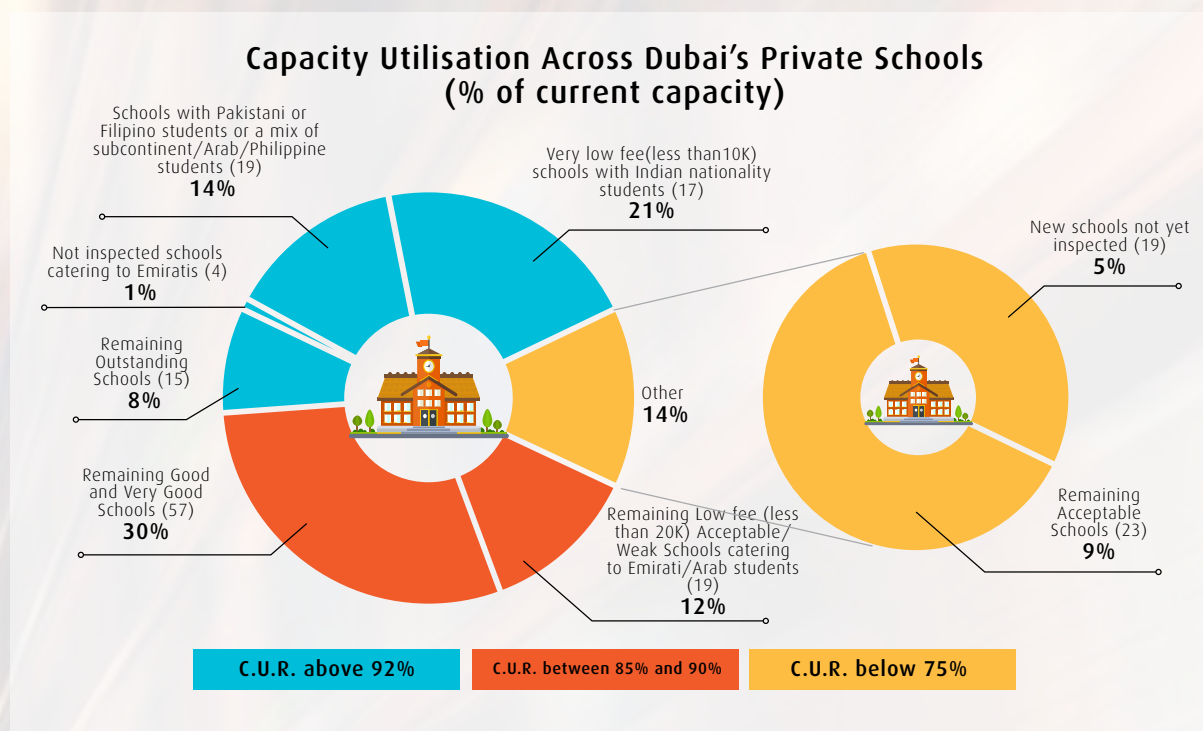


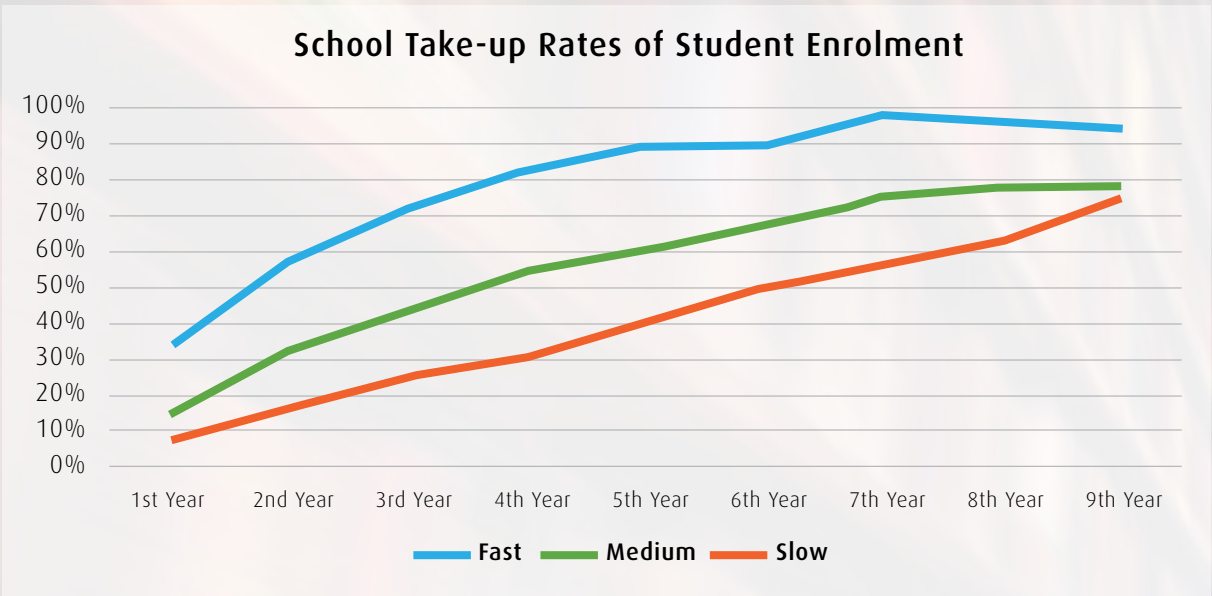
Figure 7. Capacity utilisation across Dubai's private schools

## RAMPING UP OF ENROLMENT TO REACH FULL CAPACITY

While there is sufficient existing supply available in Dubai's private schools to cater to current student demand, new schools are required to generate the capacity to cater for future growth. This is a sign of a maturing cycle in the market. Determining Dubai's future requirements for specific types of private schools requires an understanding of the current and future supply of schools, the demand for different types of schools and the pace at which these schools reach capacity. This understanding depends on a range of factors, including Dubai's business cycle, the number of schools being opened around the same time, and specific aspects like school location and perceptions of quality.

<sup>1</sup> The CUR is calculated from current operational capacity of the school. This is often different to the final number of enrolment places that will eventually be available at a school. For example, a new school may have recently opened. Let's say it has available space for 1,000 students in its KG and primary grade levels. There may also be plans for 500 additional places at the secondary level but that building has not yet been fitted out or KHDA may not have provided regulatory approval. The final capacity of the school once fully completed would be 1,500 students but the current operational capacity is 1,000.

Due to the up-front capital costs of establishing a school and the need to pay back investment loans, it is important for investors to ensure a good number of new student enrolments in the first few years of a school's opening. Among private schools that have opened in Dubai in the last decade, the average take-up pattern is for a school to reach 30 per cent of its full capacity in the second year of operation; 50 per cent by the third year; 60 per cent by the fourth year; and 80 per cent by the seventh year. The below chart shows examples of fast, normal and slow take-up trajectories for the 72 private schools that opened between 2003 and 2013. One important item to note from the above chart is that regardless of the pace in the take-up of enrolment, most schools will be close to reaching 75 per cent capacity by the 8th or 9th year of operation, a figure that will provide a satisfactory return on the capital investment in the long-term.



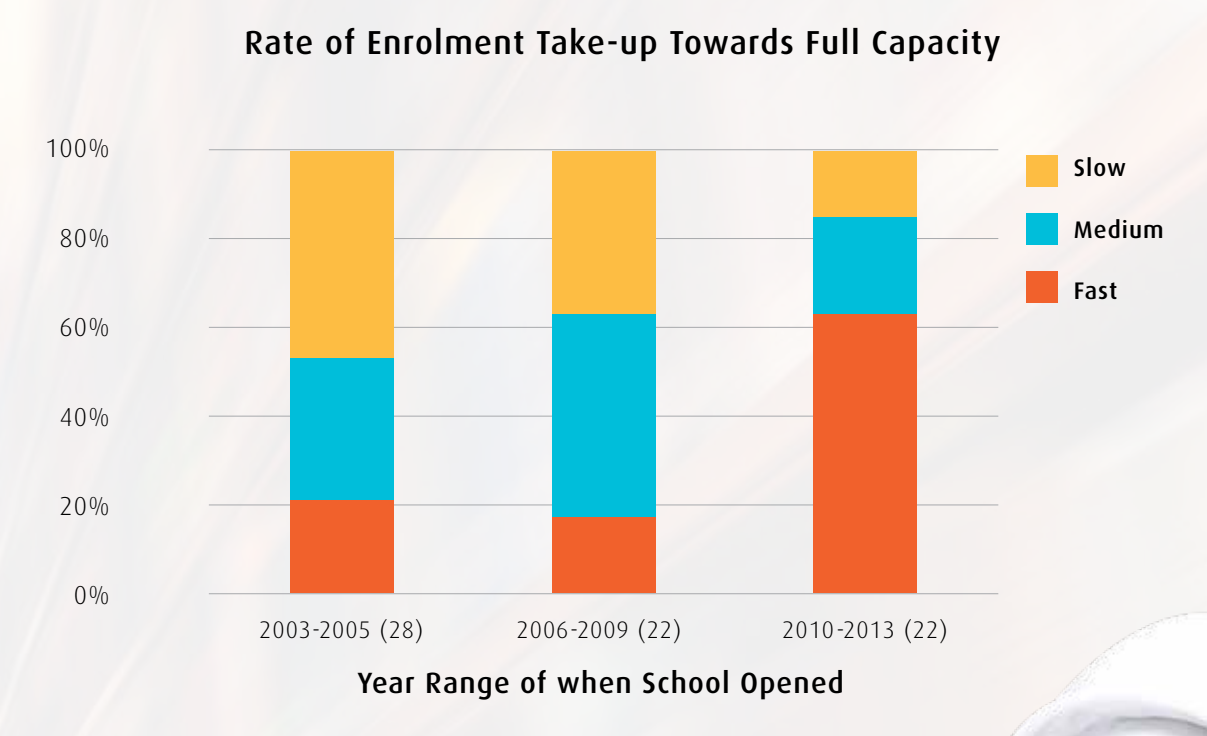
**Figure 8. A comparison of take-up rates of school enrolment**

Significant differences are apparent between various types of schools according to their curriculum and level of fees. Ten of the 13 Indian curriculum schools that opened during this time showed a fast rate of enrolment take-up whereas, none of the 14 US curriculum schools showed a fast enrolment trend. The majority of the eight IB curriculum schools had a medium rate of enrolment growth while UK curriculum schools had equivalent rates of fast, medium or slow take-up. Schools with low fees tend to have faster take-up rates than schools with higher fees. There is minor variation in the pace of enrolment take-up between schools of different quality and size, with better quality and smaller schools having only a slightly quicker enrolment take-up.

There is also a significant difference in take-up rates over the past decade. Schools that opened from 2010 to 2013 show faster take-up rates than schools that opened earlier. The more modest growth for schools that opened from 2003 to 2009 is due to a combination of existing schools with a relatively large amount of spare capacity; a larger number of schools that opened during the 2003 to 2005 period took longer to fill up and potential effects of the 2008 slowdown that decreased the



total growth in student enrolments. In contrast, the fast pace of enrolment take-up for schools that opened between 2010 and 2013 can be attributed to the limited spare capacity available in existing better quality schools, which required parents to select newer schools for their children.



**Figure 9. Proportions of schools with different rates of enrolment take-up**

It is too early to speculate on the pace of enrolment growth in the schools that have opened since 2013. It is clear from earlier periods that there is a correlation between a higher number of schools opening and a subsequent slower rate of enrolment take-up. A cyclical pattern of faster and slower take-up rates of enrolment in new schools over time should be considered a normal part of the education market in Dubai.



## NEED FOR FUTURE INVESTMENT

Continued population growth in Dubai, fuelled by the sustained strength of its economy, drives the need for ongoing investment in the private school sector. If the student population increases by 5.5 per cent per year, Dubai will be able to expect an additional 60,000 students by 2020. With more-established schools having limited capacity for additional students, newer schools will enrol a greater proportion of new students. It is also clear that higher quality schools tend to have higher capacity utilisation than schools offering lower quality education. This push for quality and the demand for new schools is good news for those seeking to invest in Dubai's private education market.

New private schools that opened in the period between 2010 and 2013 have experienced a phase of relatively faster enrolment growth. With the large number of schools opening in 2016-17 and more schools opening in the next two academic years, it is expected that rates of enrolment growth in new schools will return to a more traditional trajectory. This suggests that the trend towards increased advertising of new private schools and the innovative use of fee discounting will continue into the medium-term.

Dubai is open for business across different sectors of the economy. Further investment is required to build additional new private schools to satisfy the demand for places. To match the diversity of Dubai's population, a diversity in the supply of schools offering different curricula and innovation in education approaches is required. For investors who understand the importance of delivering high-quality education in an innovative, fast-moving landscape, Dubai's private schools sector promises long-term growth and new investment opportunities.







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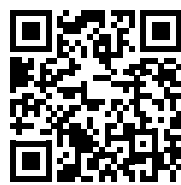


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