

Dubai real estate prices may not come down



By Anjana Kumar on Wednesday, November 12, 2008

Dubai's real estate will not see a decline in prices from what they were prior to the global market meltdown, according to a new report.

"This is a great demonstration of how strong the real estate market in Dubai is," said Tariq Ramadan, Chairman of Tharaa Holding and author "Dubai Real Estate Market Report, The Rescue Plan, Q4 2008 – Interim Report".

He said cash-rich local and international individual investors continued to show faith in the property market and hence the prices have not declined.

According to the report, the sale prices of projects launched before the fourth quarter of 2007 are 30 to 50 per cent below current market price.

However, more than 20 per cent of the property value has already been paid to the developer as down payment with more payments approaching. These projects represent over 60 per cent of the overall supply and most of them are already under construction.

On the other hand, projects launched during and since the fourth quarter 2007, which cater to the high end of the market, have recorded high sale prices.

The down payment on these are as low as 10 per cent while these projects represent under 40 per cent of the overall supply.

"Historically, buyers of newly launched projects have been mostly speculators who were used to paying a small down payment as low as two per cent and flipping the property with premiums also as low as two per cent within a couple of weeks, which provided them with "annualised" returns of around 2,000 per cent.

"These flippers have been accused of being the reason for the increase in market prices over the past three quarters; however, we believe that their margins of less than 10 per cent had a minimal effect when compared to the huge increase in construction costs. We actually believe that these speculators are the main reason for the growth and stability of the real estate sector in Dubai over the past five years. In all cases, the speculators are now out of the market and any new property sale or re-sale will have to rely mostly on mid and long-term investors or on end-buyers," said Ramadan.

Based on this, the report strongly felt that the prices of pre-2007 projects will actually increase especially if they were classified as "excellent" or "good" projects. A worst-case scenario will see these projects maintaining their value for the time being but increasing over the mid and long term.

"Most of the future demand in the market will focus on these properties especially if they are completed or at an advanced construction stage," the report said.

"If we take into consideration the weighted average projected price of 'previous properties' and 'recent properties, it is safe to say that the weighted average price of properties in Dubai will be stable with a chance to increase in the mid and long-term." The report laid down a rescue plan for Dubai's real estate sector and asked government bodies in Dubai to take certain steps.

The report suggested that the Real Estate Regulatory Agency (Rera) create property-buying incentives for investors or property buyers who are sitting on the boarder line by waiving the two per cent transfer fees for the next three months only. It called for Rera to provide some flexibility and waiving any penalties to allow developers to delay the start of construction of recently launched projects (which have not started construction already).

Rera needs to keep in mind that if these developers are "forced" to start construction now, they will face serious cash flow and financial difficulties due to lack of payments from buyers and unavailability of construction finance from banks.

According to Ramadan, the UAE Central Bank can stick to its financial policies and keep the interest rates high, but at the same time, it should allocate some of the cash provisions to directly support certain segments of the real estate market to keep the activity going and maintain (or regain) investors' confidence in the market.