

Dubai Real Estate Prices Set to Fall in 2009 on Supply Surge

dubai — dubai’s soaring real estate prices are set to peak in the first half of 2009 before a decline in the second half of the year when 70,000 units are expected to come on stream, investment bank efg-hermes said.

in an in-depth study, the bank said the softening would result in a cumulative price decline of 15-20 per cent by 2011.

“at the same time, continued supply delays could push forward the year of supply peaking to 2010 and thus extend the cycle further.”

more than half of the 70,000 residential units entering the market in 2009 “consists of as-of-yet undelivered supply” that has spilled over from 2007 and 2008.

“however, we also believe that external dynamics such as negative sentiment, a potential transfer of liquidity from the real estate to equity markets and a reduction in foreign demand could accelerate the pace and timing of a price correction,” analysts at the bank said.

driven by a persistent supply lag, dubai’s robust property sector rose 18.9 per cent in 2007, exceeding projected growth of 10-15 per cent.

this year, prices surged 14.4 per cent so far, already exceeding a growth forecast of 5-10 per cent for the whole of 2008.

demand for real estate in dubai remains robust, spurred by the entrance of more end-users into the property market, a reduction in mortgage rates as well as an increase in financing options. and

a widening of the investor base, with stronger foreign participation and a recent pick-up in speculative activity also helped to propel demand, the report said.

deliveries in 2007 came short of expectations for a fourth year due to contractor capacity constraints, a shortage of building materials, cost increases and inadequate infrastructure.

delays in the commencement of project construction have also held back supply, the report said.

according to the report, while dubai market offers a multitude of choices and is rich in opportunities and potential returns, downside risks include the diversion of liquidity from dubai towards abu dhabi and other markets, the spread of weaker global economic conditions/confidence to emerging markets, the declining affordability of property, and the spread of negative sentiment, which could cause the price correction to accelerate and deepen.

“we nevertheless believe that a price correction is likely and should be viewed as healthy, especially in keeping with our view that demand is price elastic and that a decrease in prices from their highs will encourage new demand. moreover, with real estate being at the cornerstone of the uae’s economic diversification programme, we maintain that the sector will grow over the long term.”

the strength of dubai property market, the report said, is best reflected in a continued trend of price appreciation that stems from continuing supply delays, a deepening of demand and liquidity, and limited relief from construction cost inflation.

“the recent rules and guidelines issued by dubai real estate regulatory agency (rera), are expected to increase the level of transparency, professionalism and confidence in dubai real estate and thus spur demand in the medium to long-term.” rera is close to publishing rental indices that will help shape the direction of rental rates.