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9th Worst Market

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Supply keeps coming, as Dubai remains the ninth worst housing market in the world.

Dubai is the ninth worst real estate market in the world, according to a survey of 50 cities.

But that is an improvement.

The first quarter report of UK-based consultant Knight Frank's periodic survey of 50 key residential markets across the world, showed Dubai was the worst residential market in the world, but the new survey shows a major improvement, especially on a six-month basis.

Read earlier report here: Dubai Leads List Of World's Worst Housing Markets

On an yearly basis Dubai's real estate prices have fallen 4.7%. Other markets which fared far worse than Dubai include the U.S., Spain and Ireland, all of which are going through severe debt-induced downturn.

But the rest of the world does not seem to be doing exceptionally well either.

"Global housing market at its weakest since 2009," notes a Knight Frank research note.

"This weak performance shows the extent to which many of the world's economies are struggling in the wake of the 2008-09 global crisis. Lending, for most developed economies, remains constrained, confidence is low and households' disposable incomes are waning. The overall fall in prices can also be partly attributed to the absence of the double-digit annual price growth which was observed in China, Singapore and India during much of 2009 and 2010."

Hong Kong emerged as the world's best performing market, rising 26.5% on an annual basis and 14.5% on six-month terms. The Indian market was second best, rising 21.3% on an annual basis and 4.20% on a quarterly basis.

But even these emerging stalwarts have seen their red hot real estate cooling down, with Hong Kong posting a 3.5% increase in real estate price in the second quarter and the Indian market dropping 1.70% during the last quarter.

Similarly, Dubai real estate prices rose 0.1% in a six-month period, but have fallen 0.5% on a quarterly basis, suggesting the recovery was weak and potentially disrupted by the regional unrest and anaemic global growth.

50 BEST & WORST RESIDENTIAL MARKETS				
Rank	Country	Annual	Six-month	Quarter
		% change	% change	% change
1	Hong Kong	26.50%	14.00%	3.50%
2	India	21.30%	4.20%	-1.70%
3	Taiwan	12.70%	2.50%	1.70%
4	Estonia	10.60%	7.60%	8.00%
6	France	9.10%	2.10%	0.50%
7	Slovenia	9.00%	9.40%	4.70%
8	Poland	8.50%	0.20%	-1.40%
9	Singapore	6.70%	3.10%	1.40%
10	Norway	6.50%	8.80%	3.60%
11	China*	6.50%	0.30%	-0.10%
12	Malaysia	6.50%	1.40%	-0.80%
13	Jersey	5.60%	-0.20%	2.40%
14	Indonesia	4.80%	3.60%	1.30%
15	Turkey	4.70%	3.10%	1.30%
16	Switzerland	4.50%	1.90%	0.60%
17	Belgium	4.20%	2.20%	-0.30%
18	Canada	4.10%	0.70%	1.00%
19	Iceland	3.80%	3.50%	2.70%
20	Sweden	3.40%	0.60%	0.20%
21	Colombia	3.30%	-0.60%	0.40%
22	Finland	2.90%	2.10%	1.10%
23	Lithuania	2.50%	8.80%	4.80%
24	Austria	2.40%	4.00%	2.50%
25	Germany	2.10%	0.00%	0.20%
26	South Africa	1.90%	4.20%	2.50%
27	Luxembourg	1.10%	0.80%	0.70%
28	Denmark	0.60%	-1.10%	-0.90%
29	New Zealand	0.00%	0.90%	0.60%
30	United Kingdom	-1.20%	1.20%	0.20%
31	Italy	-1.40%	-0.90%	-0.40%
32	Australia	-1.90%	-1.20%	-0.10%
33	Netherlands	-1.90%	-0.90%	-0.80%
34	Latvia	-2.00%	-3.10%	-1.80%
35	Malta	-2.60%	-3.50%	0.60%
36	Hungary	-2.70%	-4.50%	-1.90%
37	Portugal	-2.80%	-0.30%	-2.00%
38	Slovak Republic	-2.90%	-1.10%	-0.60%
39	Japan	-3.30%	-1.70%	-0.80%
40	Croatia	-4.50%	-0.80%	-0.70%
41	Greece	-4.60%	-1.10%	-1.50%
42	**Dubai, UAE**	**-4.70%**	**0.10%**	**-0.50%**
43	Spain	-5.10%	-3.90%	-1.40%
44	Czech Republic	-5.10%	-3.70%	-2.00%
45	United States	-5.90%	-1.20%	0.10%
46	Bulgaria	-6.40%	-3.90%	-1.60%
47	Cyprus	-7.70%	-3.30%	-0.90%
48	Ukraine	-7.80%	-1.60%	0.00%
49	Russia	-12.10%	-12.30%	1.60%
50	Ireland	-12.90%	-8.50%	-4.20%
Source: Knight Frank				

"Dubai apartment rents decreased 2% in 2Q11 following a 2% decline in 1Q11 over the previous quarter while villa rents maintained their 1Q11 levels without any significant declines after a 1% drop in 4Q10," says Global Investment House in a recent report on the regional real estate market.

"Selling prices, however, dropped by 3% for Dubai apartments led by Downtown Dubai, which dropped 8% quarter-on-quarter and DIFC down 7% on new supply. Villa selling prices in established areas with average sizes across Dubai maintained their levels of the past two quarters while villas of larger size and/or new supply entering the market have dropped by 3-5% in 2Q11."

New Supply

Dubai Municipality data shows that more than 100 buildings, and nearly 5,000 new apartment units were completed during the first six months of the year. A little over 1,500 villas were also built during the period.

Although these figures are much lower than previous year, they continue to add to the excess supply in the market. Interestingly, 2010 which saw one of the worst drops in real estate prices in the emirate, saw more new units being built than the past three years (see table below).

COMPLETED BUILDINGS IN DUBAI: SUPPLY KEEPS COMING					
	2011*	2010	2009	2008	2007
Type	Number				
Private villas	786	2,656	1,907	2,163	1,673
Investment villas	722	836	n/a	n/a	n/a
Industrial Buildings	74	183	n/a	n/a	n/a
Buildings Public Facilities	98	243	304	270	347
Multi-storey Buildings	106	309	290	395	349
Building Floor Area	20	48	n/a	n/a	n/a
Total	1,786	4,275	2,501	2,828	2,369
Number of Residential Flats	4,983	18,540	19,684	17,074	11,291
Number of stores	650	2,119	1,821	1,082	1,368
*Source: Dubai Municipality; alifarabia.com research. *till July 2011*					

Jones Lang La Salle (JLL) notes that close to 2,000 units were completed in the second quarter, bringing total residential stock to 322,000 units.

"An additional 18,000 units are expected to be completed in Q3, Q4, 2011. While we have reduced our supply pipeline, it is still expected that completions will be higher than the 10,000 units that RERA expect to be completed over the second half of 2011," says JLL.

The Dubai Real Estate Regulatory Authority (RERA) also cancelled 217 projects which could potentially reduce the supply flow over the next few quarters.

DUBAI REAL ESTATE TRANSACTIONS: FALLING AVERAGES			
	2010	2009	2008
Number of Transactions	37,716	42,131	31,613
Value of Transactions	119,476,543,000	152,927,385,000	260,732,672,000
Average Value of Transaction	3,167,795	3,629,807	8,247,641
Source: Dubai Municipality			

Rasmala analyst Saud Masud, who has emerged as one of the real estate bears of Dubai real estate market over the past few years, expects the downturn to persist.

"We believe the Dubai residential market may see delivery of 30,000-35,000 units of apartments and villas combined between 2011 and 2013, upon an existing supply base of roughly 330,000 units," said Masud in a July note.

"This translates into roughly 10% incremental supply over three years, which we believe will further depress real state asset values. Our house view remains that Dubai residential sales may bottom out at Dh600-650 per sq ft, hence current price levels of Dh750 per sq ft imply an additional 15%-20% downside potential to property prices."

Price Depression

JLL's estimates show residential sale prices saw a 5% drop, far worse than Frank Knight's figures.

However, there is rising activity from within established prime community locations, such as Dubai Marina, Burj Dubai, Palm Jumeirah and Emirates Living. 58% of total transactions were found to be registered in these developments. "Market professionals reported increased interest from the MENA region, suggesting the political turmoil is having a positive impact on the property market in Dubai."

CB Richard Ellis says that the UAE Federal Government decision's to increase the visa validity granted to property investors from six months to three years should have a positive long term effect on the market. "However, at this stage the threat of significant new supply, cost of finance, and expectations of further pricing downside continue to inhibit property."

Greater stability has been found within some of the more established community locations, but new development areas will continue to suffer as excess supply enters the market. A substantial number of residential properties are set for completion up to 2013 and this will make further rental depreciation likely for residential units in Dubailand, Business Bay and Jumeirah Lake Towers.

"A strong Q4 is anticipated as Dubai and the region generally emerges from a difficult couple of years, although it remains to be seen whether this will be sufficient to turn around another challenging year in the local real estate sector," says CB Richard Ellis.

Conclusion

Regional unrest across the region has not translated in investors piling into Dubai real estate, at least for now, despite the new visa law initiated by the Federal Government.

However real estate consultant expects that this trend may become more evident in the third quarter and fourth quarter of 2011.

"Companies within these locations whose business have been affected by the recent unrest cannot simply close their offices. As time moves on we will begin to see contingency plans unfold and cities such as Dubai benefit from an influx of companies and their staff," notes Cluttons.

The real estate market needs a catalyst, which would usher in a flurry of activity and soak up some of the excess real estate housing units.

"Increasing UAE residency visa tenures from six months to three years for real estate investors is likely a positive development for the sector and, in our view, supports broader confidence," says Rasmala's Masud.

"However, a direct tangible impact on property prices is difficult to estimate in the foreseeable future. We believe current property transactions are primarily driven by supply-demand dynamics and associated risk-rewards, while visa implications are more secondary catalysts."

Furthermore, there is the issue of re-pricing of risk. The Arab World has not yet fully worked its way through the regional unrest and while Dubai appears to be one of the beneficiaries as a safe haven, a general deterioration of the regional economic environment could delay the real estate recovery.

A sudden drop in oil prices could also upset regional investor sentiment. Fears of a recession in Europe and the United States, and the possible resumption of Libyan oil supplies could see crude prices tumbling and regional economic recovery curtailed.

Either way, it seems reason enough for interested investors to sit on the sidelines and jump in only when the outlook is much clearer.

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