

Dubai property bounces but stirs fears of new bubble

DUBAI, UAE: Dubai's property sector is making a strong comeback five years after prices in the emirate nosedived, but a surge in demand and bouncing prices have triggered calls to remember the crisis.



Scale models of grandiose developments rolled out at the three-day Cityscape property show, which ended on Thursday (10 October) highlighting the renewed confidence in a market that shed around half of its value in recent years.

But Ali Lootah, chairman of Nakheel, the developer behind a clutch of landmark projects in the Gulf including its famous palm-shaped man-made islands, was bullish.

"Dubai is booming again," he said.

He was speaking as Nakheel launched a new seafront development on reclaimed land, along with a handful of residential projects. "We have a lot of people moving to Dubai. Dubai is back in business and I'm not really worried about speculators," he said.

Historically, speculation on the market pushed property prices to record highs before sending them tumbling during the global financial crisis. Dubai's property market grew rapidly during the five years before the crash as the sector became a magnet for foreign investors.

Financial crisis hurt Dubai

But foreign financing dried up when the global financial crisis hit property, just as it struck the heavily-indebted government-related companies, while the economy contracted.

Dubai has weathered the debt crisis, leaning on its robust trade, tourism and transport sectors, although the city-state still carries a large burden of debt exceeding US\$100bn.

Its economy grew 3.7% in 2011 and 4.4% in 2012, and is expected to expand by 4.1% this year.

Some residential properties have bounced up about 20%," said Alan Robertson, chief executive for the Middle East-North Africa region at Jones Lang LaSalle property consultancy.

"We think prices will continue to grow quite quickly over the next 12 months, but over the next 24 months we will see the rate of growth slow down," he said, adding that prices were still between 20% and 30% below their 2008 peak.



"We think that this is an initial growth spurt, which will settle down as the pent-up demand we have experienced is satisfied," Robertson said.

More sustainable market

He predicted that the market will reverse into a more sustainable growth in prices and warned against getting carried away by signs of recovery, although he was cautiously optimistic for the future.

He did not foresee another bubble because of a recent decision to double sales duties to four percent, in an attempt to curb flipping of properties.

"This will take a bit of steam out of the market," said Robertson, pointing to demand from end users, including Arab investors sheltering their money in Dubai away from their countries that have been rocked by the Arab spring uprisings.

Robertson sees Dubai as a "safe haven", noting that 80% of buyers are paying in cash, with the remaining fifth backed by mortgages.

To meet the rising appetite of investors, Dubai has dusted off ambitious plans for new developments.

At the Cityscape show, models of properties showcased elaborate features, including man-made canals dotted with Florence-style bridges, and a Dubai-I wheel that will be larger than the London Eye.

Speculation changed

EFG-Hermes investment bank has talked of signs of a bubble developing, but noted in its quarterly report this month that speculation has changed from the pre-crisis mode.

The bank said speculation between 2006 and 2008 was greatly driven by cheap credit and high leverage compared with current speculation projects by cash-rich investors.

In July, the International Monetary Fund warned Dubai it should intervene to prevent property prices from developing a bubble.

"It is too early to speak of a bubble, but should price increases continue to take place at this pace, action will need to be taken to prevent a bubble," IMF mission chief for the UAE Harald Finger said.

But despite the gleaming display of models at the show, the projects appear to be phased-in over a long period of time, with releases made in small portions, according to Robertson.

This was clear at the show, where a salesman standing by a model of thousands of planned villas, said only a couple of hundred had been released for sale.

"The developers are showing that they have learnt lessons from last time," Robertson said.

Source: AFP via I-Net Bridge

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