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Dubai property sales and rental rates stabilise

By
Anjana Kumar on Thursday, January 14, 2010

After a few dismal quarters, real estate sale and rental prices in Dubai are stabilising, two new reports highlighted yesterday, pointing to an equilibrium being reached in the emirate's property market.

HC Securities' latest review of the sector, Property Beat, revealed that the last two months of 2009 recorded month-on-month rental gains of two and one per cent, respectively, underlining the stabilisation trend.

Since rentals, unlike sale prices, are considered a truer reflection of demand-supply dynamics, "the turnaround in November 2009 following none months of successive declines suggests the market is reaching equilibrium," the report added.

While forthcoming supply could once again test this rentals equilibrium in 2010, the agency believes "the restructuring of Nakheel, which controls 50 per cent of expected supply according to our estimates, could however lead to further project delays and cancellations."

According to another report by Asteco, the decline in rental rates slowed in the last quarter when compared to the third quarter of 2009, with overall decreases of two per cent for apartments and one per cent for villas.

Asteco added that rental rates in Dubai declined by 24 per cent for apartments and 18 per cent for villas on an average for the whole of 2009. Apartment rental rate decreases saw Palm Jumeirah with a minimal decline of six per cent in comparison, followed by International City by around 15 per cent since the first quarter of 2009.

The villa leasing rates in Jumeirah and Umm Suqeim saw the highest drop with 30 per cent. Palm Jumeirah was the only area that recorded an increase in villa rental rates of four per cent on average owing to the lack of availability as many owners bought property to live-in or to keep as a holiday home.

There was consistent activity in residential leasing in 2009. Landlords with quality units in prominent locations and those that are responsive to market conditions will benefit from increased interest, the agency said.

Payment terms became more flexible with tenants asking to pay with four, six and 12 cheques while landlords agreed due to increased competition. Additional incentives included one month rent-free. The number of cheques is expected to increase with 12 cheques a year becoming the norm. Incentives such as landlords paying all the commissions and discounts on moving packages will increase in line with the release of more stock, it said.

Popular locations

Studios and one-bedroom units in Discovery Gardens and Dubai Marina were popular due to low rental rates and proximity to Ibn Battuta Mall, the Dubai Marina and beach and Abu Dhabi.

The Springs and Arabian Ranches were also in demand due to the community feel and the smaller unit sizes (such as two- and three-bedroom villas), resulting in lower rental rates and a community feel.

Palm Jumeirah and Downtown Burj Dubai were also highly sought-after destination locations. Discovery Gardens, Dubai Marina, Palm Jumeirah, Downtown Burj Dubai, Springs and Arabian Ranches will continue to remain attractive throughout 2010, the report added.

Developments such as JLT will also gain in popularity once infrastructure is completed. With rental rates decreasing further, people will move to larger units; and from apartments to villas or townhouses, it said.

The Asteco report also said the overall sales prices for apartments and villas in completed developments across Dubai stabilised towards the end of 2009 with no change recorded from the third quarter to the fourth quarter of last year.

The report added that the latter half of 2009 had also seen an increase in transaction activity as the economy picked up and mortgage availability improved.

Palm Jumeirah fares best

Of all the monitored developments, Palm Jumeirah fared best as it was able to hold value. Other areas that continued to generate interest throughout 2009 included Downtown Burj Dubai, Dubai Marina, Jumeirah Beach Residence, The Springs and Arabian Ranches as they offered lifestyle communities with easy access to retail, leisure, education and entertainment.

The HC report said the "available for-sale stock" declined 71 per cent year-on-year (Y-o-Y) from 18,000 units in December 2008 to 5,000 units in December 2009. On the other hand, transaction volumes remained robust in 2009, averaging 1,821 units per month compared to 1,300 units per month last year.

Better Homes' listings dropped 64 per cent to 2,092 units in December 2009 from a peak of 5,862 units in January 2009, which suggested that distressed stock was clearing and/or listings were being pulled off the market. Furthermore, off-plan listings dropped 89 per cent to 341 units in December 2009 from 3,091 units in January 2009.

"This is a reflection of projects being put on hold, deliveries taking place during the year, and weaker demand for unready units," it said.

Meanwhile, ready listings declined at a slower pace of 48 per cent to 1,221 units in December 2009 from 2,317 units in January 2009. Lease units on the other hand increased by 17 per cent to 530 units in December 2009 from 454 units in January 2009 as able investors increasingly chose to hold their property, especially with signs of rising rentals and yield expansion.

Agreed prices in Dubai were driven down five per cent in October and November last year due to a decline in mortgage lending and deliveries. "The price declines in October and November 2009 likely had to do with a drop in mortgage lending and hence affordability," said the HC report.

Areas where deliveries were made (mainly Downtown Burj Khalifa and Dubai Marina) led the declines as buyers were seen offloading their properties ahead of the final bullet payment. Nonetheless, a slight rebound was recorded in December 2009 with agreed prices rising three per cent M-o-M.

The total value of mortgages awarded in freehold areas in 2009 dropped 24 per cent to Dh3.7 billion from Dh4.9 billion in 2008. This is mainly the result of a 12 per cent decline in the average price during the year as mortgage volumes recorded a 10 per cent increase in 2009, rising to 2,659 units from 2,412 in 2008.

Nonetheless, higher mortgage volumes were mainly driven by a 40 per cent jump in transaction volumes from 15,600 in 2008 to 21,856 units in 2009 boosted by cash buyers and affordability. Cash buyers accounted for 80 per cent on average of total transaction in 2009, compared to 76 per cent on average last year.

Financial boost

While the Dubai property market remained dominated by cash buyers, who accounted for 74 per cent of total transactions, affordability was typically boosted by the availability of financing.

Accordingly, prices appeared to have been driven down by the decline in mortgage financing during those months, but also negative sentiment following the standstill announcement.

According to the HC Securities report, the Abu Dhabi property market outperformed other emirates in 2009, despite roughly 90 per cent of transactions being off-plan.

While data on actual transactions was scarce, the agency's survey of advertised listings suggested that prices had corrected by 33 per cent in 2009, outperforming asking prices in Dubai, which retreated by 39 per cent over the same period. This was despite the fact that roughly 90 per cent of listings in Abu Dhabi were off-plan as compared to around 40 per cent in Dubai.

This may be attributed to stronger fundamentals in Abu Dhabi given the acute shortage and higher rentals yields of up to 14 per cent. Asking prices in Abu Dhabi retreated four per cent in November 2009 and nine per cent in December 2009 lead by Al Reem Island where deliveries took place during those months. The HC report added that deliveries would likely put pressure on prices in the short-term as buyers try to avoid the final installment.

Demand supply gap

According to Asteco, the real estate market in UAE saw an increase in residential supply this year. Demand was seen coming from Abu Dhabi and the Northern Emirates due to the affordability in Dubai. There was a large amount of relocation within Dubai especially in the first three quarters as people upgraded to better locations or better quality units or simply opted for better value for money.

The report said there would be an increase in supply throughout 2010 which would widen the supply-demand gap, resulting in downward pressure on rental rates. With the completion of many residential units in Abu Dhabi and the expected decrease in rents, demand from Abu Dhabi would weaken.

Negotiation the norm

Tenants were able to negotiate payment terms and rental rates due to the increase in supply. Negotiation will become the norm. Flexible payment terms will become increasingly common. In 2009, the majority of transactions were for units below the Dh1,000 per sq ft mark.

The Dubai office rental market did not experience any significant changes in the last quarter of 2009 compared to the previous quarter. Enquiry levels have declined slightly due to the holidays season and companies were seen delaying decision-making until the beginning of 2010.

Developments that continued to generate interest due to location and quality included DIFC and Sheikh Zayed Road. However, market expectations and developer's acceptance was still apart. Developers have begun handing over units in Business Bay to owners.

Office rentals fall

In the fourth quarter of 2009, Asteco said that the average gross rental rate for office space across Dubai stands at Dh175 per square foot per annum. The rates decreased by 31 per cent since the beginning of the year. Tecom saw the highest drop with 48 per cent since the first quarter of 2009 owing to the increased supply in the area. Deira, on the other hand, only decreased by 20 per cent as the area remains popular; especially with the anticipated opening of three main Metro stations in a five km radius.

According to Asteco, areas that saw some activity included JLT, Business Bay and Tecom at prices near original levels. The majority of sales were for small units ranging from 1,000 to 2,000 sq ft. Developments with completed infrastructure in a good location would fare better, the agency said. Master planned developments such as JLT that offer staff reasonable rental options will be more popular. Incentives and offerings by free zones will encourage small businesses to set up.

Postponements likely

There has not been a major shift in strategy on behalf of developers. Developers were more focused on the collection of payments for properties they have sold off-plan and on consolidating properties.

Developers are likely to postpone new commercial projects until the supply-demand gap narrows. Developers are also expected to focus on completing projects that are in advanced stages of completion.

With regards to villas, Jumeirah Park experienced the highest drop since the first quarter of 2009 with 34 per cent, followed by Arabian Ranches with 29 per cent. Palm Jumeirah and The Springs, on the other hand, recorded positive growth with 20 and 21 per cent, respectively.

Similar to apartments, price decreases were most substantial between the fourth quarter of 2008 and first quarter of 2009. The average year-on-year decrease amounted to 49 per cent since Q4 of 2008.

The mortgage market in the capital is more buoyant than in the other emirates, with up to 90 per cent mortgages available from at least two lenders. Lenders favour the major developers, but for these they are prepared to lend against under construction properties as well as for the few completed units that are becoming available. Abu Dhabi Finance, ADCB and RAKBank are the most active lenders in the Abu Dhabi market.