

Residential rents in Dubai stabilise in recent months

By

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Average residential rents in Dubai largely stabilised in the past two months, but may decline in 2010 with supply determining the relevant impact across locations, a real estate analyst said yesterday.

"In terms of average rents in Dubai, we've seen relatively minimal changes in rents. There are some exceptions with some areas seeing rental increases and others experiencing declines. The supply issue will impact rental trends next year and we anticipate average rents to decline," Jesse Downs, Director of Research and Advisory Services at Landmark Advisory, told **Emirates Business**.

According to Landmark, there has been increase in sales and rental activity targeting more "mid-range" quality and locations over the past three months. "The 'flight to quality' trend, witnessed in Dubai over the past six to nine months, continues to be driven by value-conscious middle-income end-users and families focused especially on value and size," said Downs.

Sale prices for Palm Jumeirah apartments climbed seven per cent, while more average quality developments, such as International City, declined 10 per cent in the lower-limit over the past three months.

Rentals for apartments have largely "stabilised" over the past two months, with rents in some areas increasing in response to steady demand. For instance, the areas buoyed by Abu Dhabi demand, such as good quality units in Jumeirah Lake Towers, have seen lower-limit rents grow by nine per cent.

"The flight to quality trend continues across Dubai, with lower-limit rents for high-end units in Downtown Burj Dubai increasing 13 per cent. However, lower quality units have failed to show similar rent growth, while some areas continue to decline." An example of declining rents can be found in the Country Cluster units within International City, where lower-limit rents fell 12 per cent.

Studio demand declines

Besides, demand for studio apartments in Dubai has fallen compared to one-, two-, and three-bedroom apartments. This is due to both demand and supply factors. In terms of demand, 2009 has been a year of upgrading in terms of location and size of homes as well as construction and development quality.

"For apartments, we've seen the highest rental demand for one- and two-bedroom units. On the supply side, it appears developers have over built this unit type. From 2006-2008, when the market experienced the speculative frenzy, many developers were building units to meet this speculative demand rather than taking a holistic approach to understanding the market fundamentals and long-term demand drivers. At this time, speculators often preferred smaller units for a variety of reasons such as affordability or for a residency visa."

Asked if developers will actually opt not to build smaller (studio) units in 2010, Downs said this past year and the coming one to two years will be critical for developers.

"We expect that track record and demonstrated quality will continue to distinguish good developers from sub-standard developers. As this gap widens, more developers will be pushed out of the market. At the same time, good developers will be further distinguished by their ability to make data-driven decisions. In other words, good developers will evaluate the existing and anticipated supply against

demand drivers and let the analysis on supply gaps guide their development strategy."

As for villa, rents have stabilised over the past two months, with strong demand boosting rental in key areas such as Jumeirah and Emirates Living.

"There is a high demand for villas as this fits in with the 'Dubai lifestyle'. Jumeirah and Emirates Living experience the highest demand for villas, but there is steady demand for other areas such as Mirdiff, Arabian Ranches and Green Community. Of course, rents are positively correlated with proximity to central locations such that the locations further outside of key hubs in Dubai will, adjusting for variance in quality, experience lower rents," Downs added.

However, villa sale prices have remained consistent over the past three months.

"Overall, this is due to relatively low inventory levels combined with steady demand for villas. It seems that investors and end-users both attribute a lower risk premium with purchasing a villa as opposed to an apartment. This is also supported by the variance in rental yields. Over the past months the average rental yield for apartments is about nine per cent whereas the average yield for villas is around six per cent."

Downs said flight to quality trend continues across Dubai.

"Investors vary in their perception and preferred asset type. However, everyone is currently looking for value. The main trend starting this year and expected to continue to 2010 is value seeking. Within this trend, however, it is people's perception and awareness of value that is continuously evolving," she added.

The real estate consultancy has noticed sale prices dip around the time of handover for both villas and apartments.

"This is usually due to owners grappling with their final payment obligations, while also readjusting unrealistic price expectations. In addition, buyers can then benchmark new units against other completed developments."

As for the commercial segment, sale prices have declined over the past three months. "Some demand has returned, with many value-driven customers looking for bargains," said Downs.

In terms of leasing, Landmark has seen that commercial rent prices have stabilised in some areas, albeit temporarily.

"Based on our current research, we predict that average commercial leasing rates will continue to decline in 2010, as a natural consequence of the anticipated supply glut materialising."

Downs predicts stratified ownership and licensing issues will have a significant impact on the future sale prices and rental trends of commercial units in Dubai, while quality and maintenance fees will continue the differentiation of sales prices and rents.