

When ripples turn into waves

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As the most mature real estate sector in the Gulf, investors are wondering if the slump Dubai's sector is currently experiencing should set alarm bells ringing for other regional markets.

Spurred on by a burgeoning population rate, rapid economic growth and increasing interest from foreign investors, optimists thought Dubai's six year real estate boom could safely navigate its way through the global financial crisis. But as international banks tightened their credit lines and foreign investors became reticent, the ripples from the credit crunch turned to waves. The sector began to show distress signals in August when Morgan Stanley, US investment bank, released a report stating prices in the emirate could decrease by as much as 10 per cent by 2010.

New territory

In October, when projects, such as Palm Deira, were suspended it was evident that Dubai's frothy real estate boom was entering new territory.

Then in November an HSBC report said that residential property values on the secondary market had tumbled by four per cent in one month - the first time such a decline had happened in Dubai. In a market where prices had increased an estimated 300 per cent over the last five years and with many more projects still in the design stage, the news was met with understandable concern.

On November 12, local press received a leaked memo from Emirates NBD, the region's biggest bank. The message instructed employees not to offer loans to expatriate staff of local real estate firms due to potential job cuts in the sector.

So, going into 2009, how will Dubai's slump affect others in the region? Gulf states that have embarked on their own major real estate projects have been quick to dispel misconceptions about copycat tactics, emphasising the differences between the Dubai property model and their own.

To some extent this is true. Oil rich and more conservative states, such as Abu Dhabi and Saudi Arabia, have been keen to ensure a sagacious long term perspective is taken. But, in the end the success of individual projects will depend, at least in part, on the level of foreign investment required to meet the supply.

It is also worth remembering that each real estate market in the region is quite different to Dubai and, indeed, one another. The major distinction between hydrocarbon rich Abu Dhabi and real estate pioneer Dubai is each emirate's ability to access cash quickly. The UAE capital enjoys a 25 per cent surplus of GDP, while Dubai's government and state owned enterprises owe \$80bn or 148 per cent of GDP.

Abu Dhabi could utilise its reserves to stabilise its real estate sector, if required. Remedying the credit squeeze can also be aided by injecting capital into its state controlled banks. Once the financial institutions begin lending again the perennial shortage of units, expected to be 50,000 next year, should be a major shot in the arm for the sector.

By the same token, Saudi Arabia, which has undertaken a slew of new development projects such as, the King Abdullah Economic City, is very different to Dubai. The kingdom, which isn't overly exposed to real estate, is in a unique position within the GCC. It has its own domestic demand thanks to a

population of over 22m, 65 per cent of which are below 32 years old. But, the country needs to get its long-awaited mortgage law introduced and functioning to encourage home investment.

Kuwait will benefit from the fact that its real estate sector is relatively inwardly looking and is not overly dependant on foreign investment.

The same can be said, to a lesser extent, about Bahrain. Locals account for 51 per cent of the population on the island and therefore it is less affected by speculators looking to make a fast buck. However, domestic demand needs to hold strong to avoid a slump.

While Qatar's population is more reliant on expatriates, the majority of purchases in the embryonic real estate market have been made with a view to long-term ownership. Although, similar to Oman, any mega projects, such as The Pearl off Doha or Al Madina A'Zarqa in Oman, designed to attract international investors could potentially be affected by lower demand.

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