

Why Dubai Is getting Too Crowded For Comfort

By Jody Clarke



Clare Aggarwal is a “professional landlord and investor”, according to The Mail on Sunday. Her latest purchase was a £174,000 two-bedroom flat in Dubai – “my first venture abroad”. The flat doesn’t actually exist yet – it’s just one of 504 apartments being built in The Torch, a 74-storey building on Dubai Marina, and is due for completion in March 2008. Nonetheless, according to Aggarwal, Dubai’s increasingly foreigner-friendly property laws – foreigners can buy freeholds, although only in special zones – have “added another 15% to the apartment’s value and it will hopefully have doubled when it’s all done and dusted”. “I am told the rental income is between 12% and 15% per annum,” she says.

Readers who are on the ball may be starting to wonder a little – how can someone be so sure of rental income for a flat that won’t actually be inhabitable until more than a year from now? Perhaps they won’t then be surprised to learn about how Ms Aggarwal found the property – “I saw an advert in the paper, looked into it and put my money down”. She has, of course, actually been to Dubai, “on family holidays six or seven times”.

But not in the past two years – “I couldn’t afford the flights”.

Ms Aggarwal is far from being the only Briton staking vast sums of money on a building site she can’t even afford to visit. Despite Dubai’s “congested, half-finished roads” and the frequent hazy smogs produced by a “combination of pollution, sand and building dust”, the country has proved popular with other amateur landlords. According to Adam Price of Dubai Select, the UK firm selling sites in The Torch as well as two other huge developments, 75% of buyers are middle-aged British people.

And more developments are being built all the time. It seems the entire city is a building site – “there are more than 250 towers in the Jumeirah Beach and Dubai Marina area alone”, says The Mail on Sunday’s Sarah Hartley, while “billions” are being spent on hundreds of “residential supertowers” in the same mould as The Torch.

It’s perhaps no surprise that property speculators have been attracted to Dubai – figures from Asian banking group Standard Chartered suggest that prices doubled in the three years to the end of 2005. But the bad news for Ms Aggarwal and her fellow investors is that the bank believes “we are getting close to a peak in residential property prices”. In fact, it seems that prices may be falling already. The group’s residential property market index reports that prices have risen by nearly 19% in the year to October.

But that masks huge volatility in the data as well as regional variations. In five of the last eight months, the index suggested that prices had actually fallen. And in the New Dubai area, which includes the much-vaunted palm-shaped Jumeirah Beach development, prices were down 5% in the year to September.

It’s unlikely to stop here. “Supply is set to grow rapidly in 2007, outstripping demand growth,” says Standard Chartered, quoting data from Egyptian investment bank Prime Group. “Taking into account delays in the delivery of properties, 52,000 and 63,000 properties will be delivered in 2007 and 2008 respectively.”

The bank continues: “Given a reasonable assumption of 7% population growth for the emirate, it suggests this will lead to an excess supply of around 6,000 units in 2007 and 33,000 units in 2008.”

The bank reckons that prices will fall by 20% to 30% over the next two to three years – but that could well be optimistic. Dubai has already seen what can happen when asset prices get wildly over-inflated by rampant speculation – earlier this year the country's stockmarket dived by 65%. Speculators scrambled for the exits as stockmarkets across the world were rattled by US inflation fears and the threat of falling global liquidity.

It seems more than likely that the same could happen in its real-estate market. When Ms Aggarwal and her fellow overseas investors realise that their off-plan high-rise in the sun could well be worth less than they paid for it by the time it's actually been built, there will be a rush to offload. As Sarah Hartley puts it, "With a fledgling resale market, it remains to be seen whether demand will ever meet this enormous supply." We think we know the answer already.

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