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Does Dubai face a Singapore or Hong Kong style correction?

EFG Hermes excellent report on Dubai property published last month concluded that 2007 would be a year of transition in the local market with a downturn thereafter. It highlighted the pattern of gentle decline seen in Singapore from 2000-2003 as the most likely future scenario, but Hong Kong offers another model.

In Hong Kong the economic boom before the British handover to China in 1997 included a massive boom in property prices that peaked in 1998. From these lofty levels prices plunged by 70 per cent until they started to recover in 2003.

Yet by the end of last year Hong Kong property prices had fully recovered and a 20 per cent increase is forecast for 2007 by local agents. This meant that investors in Hong Kong have had a much rougher ride than in Singapore.

Indeed, in Singapore property prices increased by 37 per cent in the two years after 1998. Then prices fell from a Millennium peak by some 30 per cent before bottoming out in 2003 and turning up by some 10 per cent in the past couple of years.

Singapore scenario

EFG Hermes says that it believes the supply and demand position in Dubai today is similar to Singapore in 2000 when local developers began 'a slew of new developments, but demand could not keep up given the unfavorable economic conditions of the time'.

With \$140 billion in projects launched at the Cityscape Dubai event last month, albeit not only in Dubai the over development parallel looks clear. However, EFG Hermes admits that there is quite a range of potential outcomes for a correction in Dubai property.

The Hong Kong experience would be an extreme scenario. It would require a string of unexpected problems to hit Dubai that are impossible to predict. But as Hong Kong found out, optimistic periods can be followed by severely testing times.

Hong Kong's woes

Hong Kong suffered particularly from the 1997-8 Asian Financial Crisis as the region's major financial centre; then there was the 2000 dot-com crash which hit local speculators hard; and the disastrous Severe Acute Respiratory Syndrome health crisis of 2003 which hammered the domestic economy.

You would need to be having a really bad day to imagine Dubai being assailed by a similar combination of negative events, but it is possible. However, it should also be noted that a strong regional trading hub like Hong Kong eventually recovered from even this string of misfortunes and now once again boasts some of the highest global real estate prices. Dubai would be no different.

EFG Hermes also raises an important point in questioning whether all the property schemes now in

the pipeline in Dubai will actually get built. In particular, many of the projects scheduled for completion in 2008 and 2009 are in the hands of smaller developers, and not government or quasi-government concerns.

The report notes that some projects might not get delivered because of the 'small size and lack of experience of many of the developers'. Thus the market adjustment of supply in a slowdown could be larger than that suggested by adding together all the units now being promoted by the big and small developers.

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