



Terraced houses in Chelsea, London

# Cyclical prices



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With such a focus on the Dubai property market in local publications, the subject continues to be one of the hottest topics in town. In particular, as the prices in some areas continue to increase, doomsayers are becoming increasingly pessimistic predicting corrections of up to 20 per cent from current prices. This is no different to any other property market or any investment for that matter, there will always be those that think the end is in sight, whereas others will invest for the longer-term. What we can say for sure is that all markets are cyclical, but what is very hard to put our finger on, is where in the cycle we are in Dubai.

It is always interesting to sit back and listen to the debates occurring around us, forgetting for a while that we are involved, and simply taking in the comments. One point that seems to always come into the conversation is the fact that properties in Dubai are now expensive. They are certainly more expensive than before but what comparisons are people drawing, in order to say the prices are now expensive?

We all wish that we had bought a property or two back in 2002. The price increases of most of these early projects have made those that took that initial risk of investing substantially better off than they were three or four years ago. In reality, most did not take this risk; it was far too much of an untested, unregulated and unproven market. It is with the benefit of hindsight, that we look back and wish we had bought a number of properties on Palm Jumeirah, or a few townhouses in the Springs or Arabian Ranches. So, are some of these people that are predicting a drop in prices, people that have bought and still own their properties? A possible explanation is that they either didn't buy and are secretly kicking themselves, or else they did buy but sold far too early.

In respect of property price disparity, it is very difficult to draw such a comparison, as all markets are different and whilst there are similarities to others, most will admit there is nothing quite like Dubai and its plans. The British continue to be big investors in property, so if we look at UK property prices, it will give us an idea of what some people are comparing against. The average price of a property in the

UK on the 9<sup>th</sup> of November 2006 was STG 211,452, which at today's rates would be the equivalent of AED 1,480,000. Prices in the UK increased by 8.7 per cent over the last 12 months. Greater London is the highest priced area, with the average price at STG 583,221, which would buy you a two bedroom flat in Chelsea. Dubai investors are constantly looking at the price per square foot and in Greater London, luxury home prices are the most expensive in the world, averaging AED 8,400 per square foot. The same report states that London's super prime properties are reaching AED 23,100 per square foot.

Admittedly Dubai is not London, but neither are the prices here anywhere near the prices being paid for prime real estate in England's capital. Prices elsewhere in the UK are of course cheaper. Guildford was voted one of the best places to live in Britain in a programme on Channel 4 and prices there are much more affordable at AED 1,743 per square foot. One of the lowest prices per square foot is Manchester at AED 959. With these figures in mind can we say that Dubai is expensive when compared to the UK? The numbers reported suggest not. With the numbers of British investors still investing in Dubai, there are others that agree.

In many areas, not just real estate, it is said that Dubai is modeling itself on Singapore, which can be described as a more mature developing market. Speaking with industry professionals in Asia, property prices in Singapore are still considered to be double that of the equivalent property in Dubai. A recent report by Jones Lang LaSalle states that the average price of a luxury property in Singapore is SGD 1,568 (AED 3,700) per square foot. A new project, St Regis Residences, has set the benchmark for high end properties at SGD 2,600 (AED 6,135) per square foot. Even at these prices there is reportedly a continuing strong demand from investors, a large percentage of which are foreigners.

The report states that these prices are still considered competitive.

The difficulty of obtaining bank mortgage finance across a large percentage of Dubai's projects is perhaps more of a concern. In the UK and most other mature markets, lending is readily available, rates and offers are competitive and it is relatively simple to purchase property with a minimal deposit. When looking at what is still a relatively very new and immature property market, the availability of mortgages is much less. Those developments where there is no end user finance may struggle, as prices increase there will be less people in a position to commit large levels of capital to their investment. Developers are attempting to answer this by offering more competitive payment plans, with greater percentages payable on completion, or non status financing options to help spread payments. With further clarity to Dubai's property laws, banks will hopefully have greater confidence in lending.

Whatever your opinion of the market and direction of property prices, there are points that cannot be denied. It is near impossible to time the market; we would all love to sell at the top of the market but how will you know when prices have peaked? The comparisons to other markets suggest that there is a way to go before this happens, with Dubai prices averaging around AED 1,000 to AED 1,200 and peaking at about AED 3,500 per square foot. Prices will fall at some point and some areas will fair better than others. Property owners in other more mature markets have fallen fowl of selling their homes too early, cashing in on profits in a rising market in the expectation of a crash. This approach by property owners has to be considered much more carefully than if you are a pure investor, as calling the market wrong can price you out of the market. Careful consideration of the market and personal circumstances will help you to make an informed decision.

## In love with Dubai?



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