



Supply and demand



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Dubai's multitude of developers are building new residential properties at a staggering pace. We have previously looked at the reasons for such a relentless rate of growth, highlighting some of the main initiatives

being undertaken to attract outside investment and a surge in the population.

The questions for many investors are whether there will be an oversupply of properties on the market, when that may occur and what effect it may have on property prices and rents. This question of supply and demand is being answered gradually but the real test is likely to occur in 2007 through to 2010, based on current figures.

It is firstly important to understand the amount of units that are due to be handed over. According to a recently published report, by the end of 2008, a little over two years away, 75,000 new housing units will be completed, with a further 75,000 by 2010 and 60,000 the following year. In total 260,000 new units are estimated to be completed between now and 2015. Of this figure, one of the largest concentrations of property is in the area encompassing Jumeirah Beach Residence, Dubai Marina and Jumeirah Lake Towers, where current figures suggest in excess of 60,000 units will be completed. These figures not only start to help us comprehend the amount of property under construction around us but also give us an idea of why there is a fear of oversupply in some circles.

So we now have some factual information to help us better understand the sheer volume of residential construction in Dubai today, but this is only part of the equation, we must also look at the growth in population to understand whether this demand will meet the supply. On the face of things you would be forgiven for thinking that there is no way that this amount of property would be met by sufficient need from the end user. We all know that Dubai's population is growing quickly, in fact faster than most cities in the developed world, but surely this won't be to such an extent where we need all of these properties. Well, it is estimated that by 2010, Dubai will be home to in the region of 2.2 million residents, of which the majority will be expatriates, 1.6 million according to a recent article.

We now have two sides of the equation; there will continue to be a high volume of residential units flooding the market with supply over the coming years, however it appears that this will be met with an ongoing high demand from Dubai's ever expanding expatriate population. Assuming an average of four people to each home, then current estimates suggest that it is not until 2011 that there is a chance of oversupply and even then this will be quickly met through the continuing arrival or relocating expatriates. The figures actually suggest that there will be a shortfall in housing for at least the next three to four years.

Apart from the question of supply versus demand being an interesting and increasingly popular debate, the outcome obviously has some more material results affecting most residents of Dubai, no matter whether you have bought or continue to rent. It goes without saying that supply and demand are one of the foremost reasons for price changes.

If the published figures are to be believed, then the continuing demand over the next few years and shortage in supply, should carry on driving up property prices on the whole. Some areas will undoubtedly increase more than others, but a crash in prices predicted by a few seems unlikely, based on the argument of over supply. Should the population continue to grow as expected, then it is also unlikely that rental prices will reduce greatly, the figures seem to suggest that rents would stabilize at worst.

There is another important part to this equation, something that is often overlooked by those trying to read the market. Not all of the properties that have been purchased in Dubai have been bought with a permanent end user in mind. A large number of properties have been

bought by owner occupiers and long term investors, however a significant amount have been bought by other types of investor. There are undoubtedly a considerable number of investors that have bought property in Dubai as a holiday home, either for their own use or to short term let. The increasing number of companies with interests in this part of the world, has also led to some buying for business use on visits to the region. Whilst exact numbers are not known, even if five per cent of all properties fall into these categories, this can have a major effect on the supply and demand equation.

Another point to take into consideration is the fact that some properties will remain empty. Some investors prefer to sit on their capital investment after completion, waiting for prices to reach a certain level. This may sound completely alien to most of us, however these investors have varied reasons for managing their assets in this way. These portfolios of vacant properties can include dozens of units. Whilst this type of investor is unusual and may make up one per cent or less of the market, these properties also need to be taken out of the supply figures.

We advise a large number of investors and end users on their property purchases in Dubai and supply and demand must form a part of any discussions. The figures suggest that there is no reason to be overly concerned, but buying the right property, in the right area is absolutely fundamental. Some units will still potentially suffer a reduction in price over the next few years, despite the demand, because of other considerations, such as location, accessibility and facilities. Taking time to understand your needs and at least an overview of the plans for Dubai's many areas will help you make an informed decision.

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