

Are prices in Dubai starting to bottom out?

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"The economy will get worse before it gets better."

This has been the often exasperating, and recurring theme of most outpourings about recession by politicians, economists and bankers the world over. However, that's not what the masses want to hear, what they really want is the answer to one question: "How much worse does the economy need to get before starting to get better?"

And in the context of Dubai, "How much more do property prices have to fall before reaching the floor?": While the answer to the latter is surely not straightforward, it gets even more complicated with reports claiming on the one hand that the price free-fall is continuing, and on the other that prices have begun to finally head north.

Stabilising prices

In reality, the answer depends on buyer and seller motivations and on understanding concepts like affordability, price floors, listings versus transactions, bid-ask ratios and so on. While Investment Boutique (IB) has been doing such analysis since the start of the year, the indicators are finally pointing to some good news with a price trough expected to set in during the last quarter of 2009 or the first half of 2010, and price stabilisation anticipated soon after.

Affordability is key in the current market scenario and prices will continue to fall as long as income levels remain at the point where most end-users cannot afford property. Even at the current discounted prices, only high-income groups and a small proportion of the middle-income groups can truly afford to purchase property. The affordability threshold was computed by IB analysts as part of the Better Homes State of the Market Report - Dubai report which was released just over a month ago.

According to the model, prices need to fall by 7 to 18 per cent before becoming realistic and affordable to the middle-income segment. It should be noted that this number ranged between 17 to 27 per cent just a few months back, illustrating that we may be coming closer to a floor.

While affordability determines buyer behaviour, comparing listings against transactions is a good indicator to understand seller sentiments.

Last December, the holiday season and the general slowdown in business resulted in the number of transactions and new listings falling by around 60 per cent. While, the number of transactions saw another decline in January, listings moved up by 16 per cent. This was the point where the market first started panicking and when both investors and speculators rushed to offload property.

March saw another large spike of 46 per cent in new listings, pointing to the second 'panic' stage in the market. However, come April, the number of new listings rose by just over 20 per cent which is indicative of the fact that investors are choosing to hold on to their properties rather than selling at a huge discount.

Positive movements

The summer months followed by Ramadan are expected to follow the December trend, when the number of transactions and listings is predicted to fall due to the general slowdown in the market. Some positive movements are anticipated thereafter.

Another approach to figure out where the market is headed is the computation of a price floor based on outstanding mortgage balances. The theory assumes that a seller may be willing to make an overall loss on a property provided he can pay off his outstanding mortgage balance.

IB developed a robust model to determine the price floor in the Dubai housing market based on actual transaction data as part of the soon to be released Dubai Market Pulse Q2 2009.

The acceptable price floor is largely dependent on when the property was purchased and the prices prevalent in that year. For properties purchased last year, prices reached the floor in early 2009 and investors do not have any incentive to sell at this stage.

However, investors who entered the market earlier may be willing to sell at current rates or even at slightly lower prices depending on their risk appetite. A weighted average based on annual transactions indicates that prices need to fall by a further 5 to 7 per cent before reaching the floor.

However, the concept of 'price floor' is theoretical, based on averages and depends on how much of a loss a particular seller is willing to accept. Also, it excludes

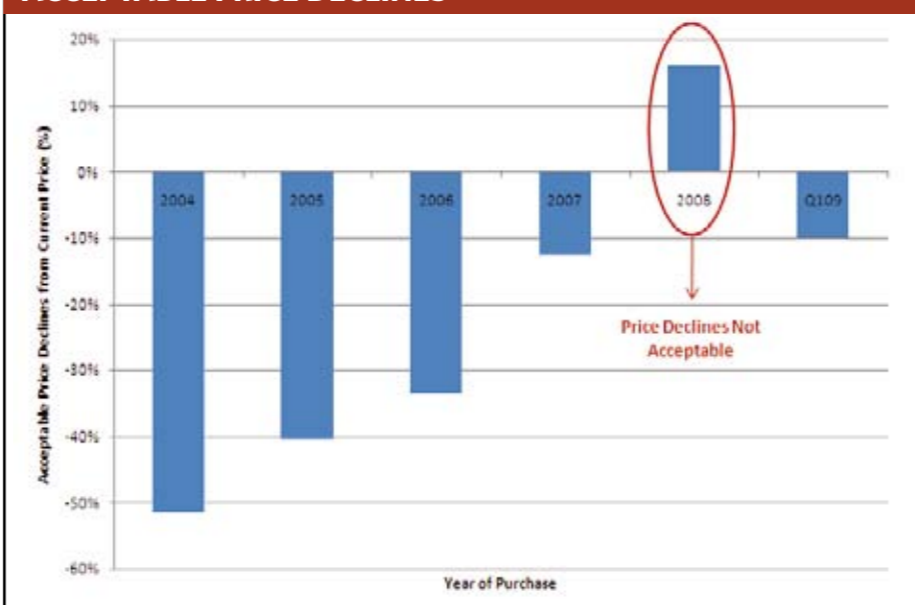


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Photo: Al Nisr archives

ACCEPTABLE PRICE DECLINES

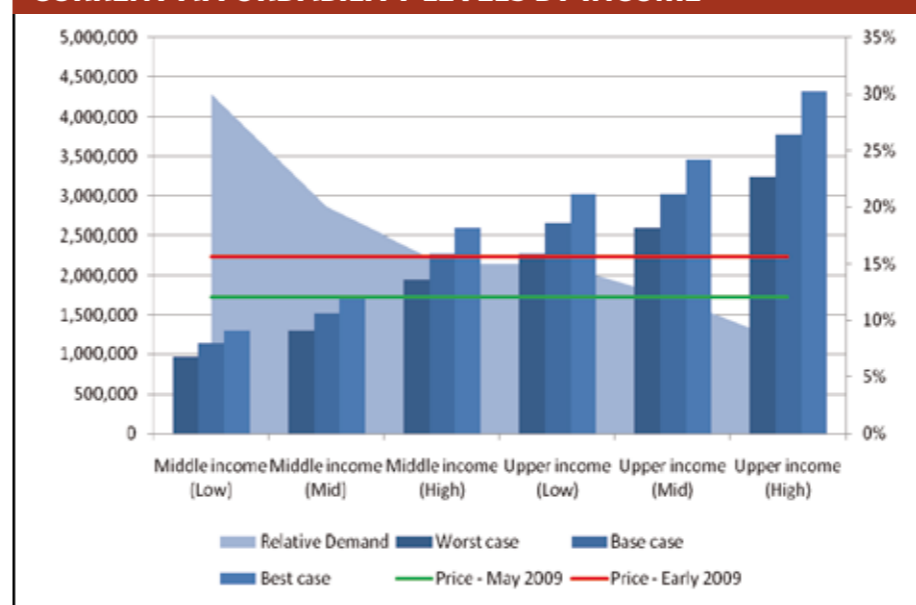


prospective investors who would re-enter the market only on the grounds of a reasonable yield on investments.

In addition, it should be noted that the above three approaches do not consider the price pressure that the additional ex-

pected supply will exert on the market. However, the above analysis, coupled with reports of the narrowing of bid-ask spreads, the clearing of distressed stock, the easing of mortgage requirements, the re-entry of foreign investors, the

CURRENT AFFORDABILITY LEVELS BY INCOME



pumping of cash by the Dubai Governments and a resurgence in recruitments, together point towards a recovery.

Add to this the obvious impact of the Metro, and it seems like the last quarter of 2009 or the first half of 2010 should

bring a ray of hope to the gloom in Dubai's real estate sector.

The writer is senior manager, research for Investment Boutique, a UAE-based real estate consultancy firm that provides advisory, research and portfolio management expertise

US housing market shows signs of recovery



Sales of previously owned US homes rose in April, a recent report shows

The US housing market last week showed another sign that the free-fall could be slowing as figures showed that pending home sales rose for the third month running in April as record low mortgage rates are luring buyers back to the market.

The data, released by the National Association of Realtors, which reflect deals that have been signed but not completed, showed that pending home sales rose by 6.7 per cent during the month and were up by 3.2 per cent on the year. Economists were expecting a monthly rise of 0.5 per cent.

Rising sales

Sales jumped the most in the northeast, rising by 32.6 per cent between March and April. Pending home sales rose by 9.8 per cent and 1.8 per cent in the midwest and west, respectively. In the south, sales were off by 0.2 per cent in the month but were still up by 3.5 per cent compared with April last year.

"Housing affordability conditions have been at historic highs, but now the \$8,000 first-time buyer tax credit is beginning to impact the market," said Lawrence Yun, NAR chief economist.

Homeowners have been reluctant to sell their homes amid falling prices, while buyers have been awaiting the

full impact of new government incentives to take effect and have been wary of investing in a declining asset class.

But a batch of recent housing market indicators show that parts of the housing market — particularly the low end of the price spectrum, are starting to unlock.

"The market has already bottomed in some areas, but this is an unusual housing cycle with some areas improving rapidly while others languish or decline," Yun said.

Falling sales and prices have brought home affordability to new highs. According to the NAR housing affordability index, buying conditions in April reached the second highest level since it began tracking home sales in 1970.

Last week's results follow the previous week's NAR figures showing that home resales rose by 2.9 per cent in April to an annual rate of 4.68 million. The monthly rise was due to distressed sales and foreclosures, which accounted for 45 per cent of all transactions.

Meanwhile on June 1, commerce department figures showed that US construction spending unexpectedly rose in April, with residential construction climbing by 0.7 per cent.