

Dubai home finance set to return this year

There is good news for the Dubai property market, as lenders are set to come back with increased budgets this year over 2009. **Utpal Bhattacharya** finds out more.

The year 2010 could see a 300 per cent rise in home finance in Dubai over the previous year, as mortgage activity in the emirate's real estate market has started to pick up. Property and rental prices are down to 2007 levels and in some cases even lower, which is helping queries to come thick and fast. Activity increased so much in February that Showkat Wani, senior mortgage advisor at John Charcol Middle East, says he had to come to his office at weekends.

Most real estate consultants agree that the residential market in Dubai is stabilising. According to Jones Lang LaSalle, the average sale price per square foot of residential property in Dubai dropped just two per cent in the fourth quarter of 2009 to AED882, compared to AED901 in the previous quarter of the same year. Apartment rents in the fourth quarter of 2009 were down 39 per cent over the same quarter in the previous year, but up three per cent over the previous quarter of the same year.

Villa rents were marginally down by one per cent in the fourth quarter of 2009 over the previous quarter, although they were

down 46 per cent compared to the fourth quarter of 2008.

A new Dubai residential sale price index launched by REIDIN.com, an online information company providing a range of intelligence products for the real estate market in Dubai, also showed a 0.7 per cent rise in the fourth quarter of 2009 before the previous quarter. These are indications of markets having bottomed out and investors gradually finding their way back to the market.

Industry experts say that the Dubai property market was already beginning to look up in the last quarter of 2009 before the announcements of Dubai World's debt problems shook up buyers' confidence. But things have started to move again, and leading brokers say that they have each started to average around seven to eight cases a month compared to near nothing in December and two or three in January.

What's expected?

According to a recent Jones Lang LaSalle report, the Dubai market will continue to face an oversupply of residential properties in 2010 that will hinder price increases.

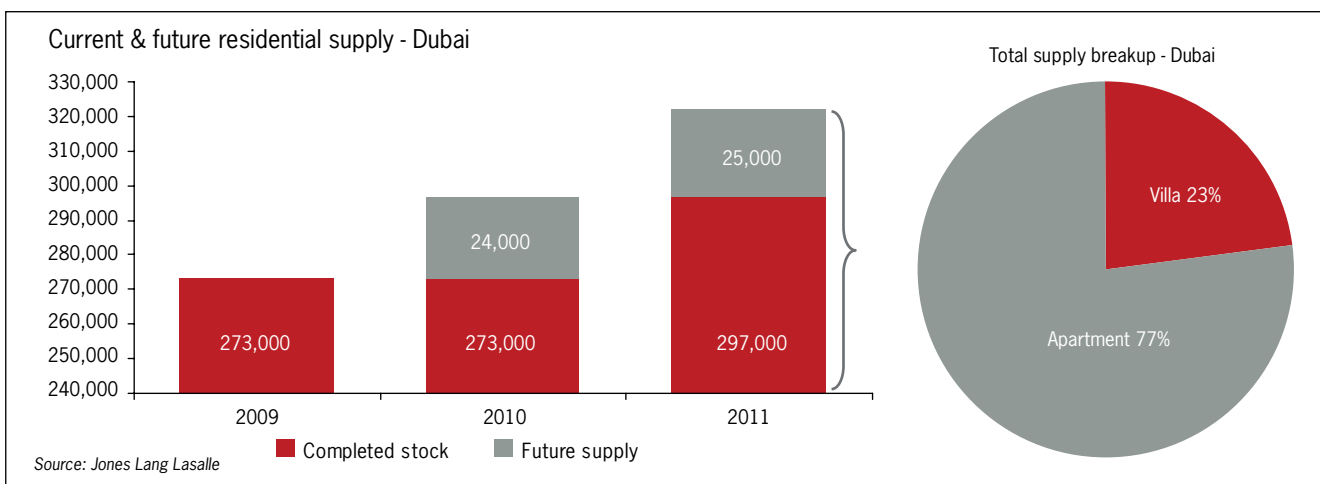
In fact, the report says that prices are not expected to fully recover before 2011.

According to the report, 17,000 new units were completed in Dubai in 2009 and an additional 24,000 units are expected to be completed this year.

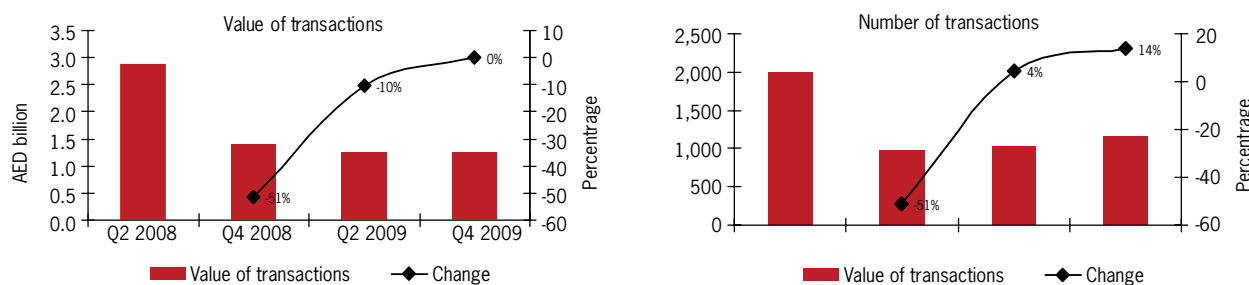
The report also identifies lack of lending as a key factor hindering market recovery. It says: "Despite media reports of improved financing conditions, the value of mortgages as a percentage of total sales value has dropped significantly from 74 per cent in the first quarter of 2009 to 38 per cent in the fourth quarter of 2009."

However, lending is set to sharply increase in 2010, as banks are now flush with money. According to Wani, there are 23 lenders with a variety of mortgage products in Dubai today, and five of the leading banks together have plans to disburse AED6.5 billion worth of mortgages in 2010. These top five banks disbursed a total of AED2 billion in mortgage finance in 2009, says Wani.

Wani adds that there is enough money to supply 21,000 mortgages for 2010, although the lending criteria have changed post-crisis. Lending is now mostly targeted



Sales transactional data – pointing towards a recovery in Dubai?



Source: Jones Lang Lasalle

at employed professionals, with the exception of the real estate industry, says Wani.

The requirements from lenders have also become comparatively less stringent in the past few months. Banks are even giving mortgage finance to those with monthly salaries of AED10,000, although an individual with a salary of AED15,000 a month has a better chance of getting a mortgage application approved.

Undoubtedly, cash will remain king throughout 2010, but it is possible to get a loan-to-value ratio of 85 per cent and even up to 90 per cent through some mortgage brokers, subject to fulfilling certain conditions, including salary levels north of AED40,000 a month. There is increased activity at the higher end of the market, where highly-paid professionals are finding it cheaper to purchase property, according to Wani.

Another catalyst that is helping to bring interest to the sale of Dubai property is the decline of interest rates. Average rates have fallen by 150 basis points during the last two months. The lowest mortgage finance rate now available is 6.75 per cent in direct lending and 6.4 per cent through mortgage brokers.

If this trend continues and Dubai's debt restructuring plan is successful in the next few weeks, the market will get a big boost, thus ending the gloomy run that started in late 2008.

What's changing in the market?

A number of trends are visible in the Dubai real estate market post-crisis. One of the most important developments has been the recent announcement by Barclays Bank that it has obtained the first foreclosure

judgment from the Dubai Land Department. While this sets a precedent and will result in more foreclosures going forward, it is also a sign of the local market maturing. The foreclosure judgment has demonstrated that the Dubai Real Estate Regulatory Authority (RERA) has been able to establish the mechanism required by the Mortgage Law of 2007 to handle mortgages that are in default. And this in turn brings enormous confidence to the market. One of the challenges for RERA is now to establish a market for auctioning off foreclosed properties, as auctions held earlier by private parties were not successful due to wildly mismatching expectations of buyers and sellers.

Among the most important developments in the market post-crisis is the death of speculators and the off-plan market. Banks are now very reluctant to lend on under-construction or off-plan properties. Under-construction villas could still raise some funding on a case-to-case basis because of their shortage, but uncompleted apartments do not have any takers.

Due to oversupply, the market is beginning to see owners focusing more on active management of properties versus new developments. As such, the market is unlikely to see new announcements of projects for some time to come. Jones Lang LaSalle expects to see landlords providing greater incentives to attract and retain tenants in 2010, while they also position luxury developments for middle end-users.

Another trend has been a large number of end-users coming to the market. Investors that have the holding power are coming in, and long-term international investors are keenly eyeing the Dubai property market

as regulations get better and government policies shift towards creating long-term sustainable economic growth.

An interesting and positive trend that is emerging now is the increasing role of mortgage brokers and other service providers in the market, as banks are beginning to depend more on credible broking names to get them good clients.

Wani says that in the past, around seven per cent of all mortgages were disbursed through mortgage brokers. He expects this figure to rise to 15 per cent in 2010, as more customers realise that going to a bank directly makes it more complicated for them to get their loans sanctioned. Going through a mortgage broker makes life easier both for lenders and borrowers, as documentation and due diligence are taken care of professionally, to a great extent, at the intermediary level.

"Increasingly, banks are and will depend on mortgage brokers to do the due diligence on their clients. This function will be outsourced by the banks. We have been in talks with a couple of banks that want to use mortgage brokers exclusively rather than their own sales people. The model will eventually move to the UK and US model, where the majority of mortgages are distributed through intermediaries, financial advisors and mortgage advisors," says Wani.

This means that Dubai is likely to see the creation of a whole new industry of mortgage and financial advisors, with banks mostly outsourcing a large part of the documentation and due diligence processes to these intermediaries. Wani adds that it will only make the system more efficient, and that it is part of the process of how a market matures.