



A silver lining on Dubai's property sector

Sultan Sooud Al-Qassemi writes why it is really not all bad news for the real estate market in Dubai.

Until a few months ago the news was all good; now the news seems to be all bad. What happened to the shades of gray?

In this strict financial diet even newspapers have lost weight, as real estate property sales have declined along with their excessive valuations and aggressive advertising. But there is a silver lining to this story: things are brighter than they seem.

Barring the short term property speculators, who have taken it upon themselves to flip apartments the same way as Italian pizza chefs flip pizza dough, the news of receding prices in the Dubai property market should be celebrated.

First, it makes our city much more reasonably priced and competitive for foreign investors. The allure of starting a new business or moving shop to Dubai was diminishing with every new ranking and news report that stated how life in the emirate was becoming costlier compared to other cities in the Middle East and globally¹. There is no doubt that property prices, whether for rent or sale, have a large impact on any expatriate's decision to move to a new country since it constitutes a major part of one's expenditure. In fact, we already saw this happening when Orbit, the regional TV subscription service provider moved its headquarters to Bahrain in 2005 even though Dubai Media City, the city's media freezone, was an ideal location. More recently, it was Zain Telecom's choice of moving its headquarters out of Kuwait due to the bureaucratic hurdles it is facing². The firm, which employs at the company level over 1,000 professionals, opted for Bahrain, even though Dubai was very closely considered³. There is no doubt that cost also played a large part in their choice since Bahrain was relatively less expensive than Dubai, although now with

the correction in prices the difference has greatly decreased.

When it comes to buying property in Dubai, the very same banks that were issuing reports about real estate developers were also commenting positively on the market and providing finance to investors and flippers alike. Of course, these banks had no problem in giving loans when the going was good (read risky) and now that the supply has been controlled, regulations enhanced and properties actually built, they have tightened their credit lines and imposed strict guidelines for any person wanting to buy a property.

Another additional benefit to this current global and local financial crisis is that many of the ugly, ridiculous and gravity defying projects have been cancelled. There were some copycat projects that were to duplicate famous structures around the world rather than create original architectural wonders for our city to be proud of; fortunately these seem to also have been cancelled. It is likely that only projects that make common and economic sense will take off and that too under better conditions.

Dubai's new environmentally friendly Green Building Code introduced in January this year will likely be enforced on projects that have been delayed since developers will probably have to renew their project permits. This Green Building Code will potentially help save up to 70 per cent of the electricity, 60 per cent of the water and 36 per cent of the energy compared to standard buildings⁴. Also, the federal government's recent strict enforcement of new regulations to safeguard the rights of labourers in the UAE will have a positive impact on a larger number of construction workers who have yet to be recruited for delayed projects. In April this year,

the UAE's ministry of labour revealed an action plan to help labourers that included the publication of a guide book to make construction workers aware of their rights and launching an active offensive against unscrupulous foreign recruitment agencies⁵ along with intensified inspections and labour and human rights awareness campaigns⁶. The global credit crunch allowed the world construction sector to take a breather or a step back, in order to address the pressing issues of workers' rights around the world and the UAE is no exception.

Finally, the current crisis is making apartments and houses affordable for families, which is essentially the social fabric of any community. As prices were increasing unreasonably, many employees opted to sending their families back to their countries of origin so that they may move into bachelor accommodations in order to save money. Employees whose spouses and children live with them undoubtedly are more content, and therefore, more productive. These families also end up sending their kids to school in Dubai, renting bigger flats and houses, shopping and spending money in the local economy rather than resort to sending a larger portion of remittances abroad.

So the next time someone tells you that all is not so well with the local property sector, tell them that the world is full of shades of gray, nothing is too good, and nothing is too bad. There's always a middle shade.

(Footnotes)

[1] <http://www.zawya.com/Story.cfm/sidZAWYA20070523064419>

[2] <http://www.zawya.com/Story.cfm/sidZAWYA20070909063247>

[3] <http://www.gulfdailynews.com/NewsDetails.aspx?storyid=195445>

[4] <http://www.zawya.com/Story.cfm/sidZAWYA20080812042005>

[5] <http://www.arabianbusiness.com/552169-ministry-reveals-action-plan-to-help-uae-labourers>

[6] <http://www.gulfnews.com/nation/Society/10302203.html>

Sheikh Sultan bin Saud Al Qassemi is the chairman of Barjeel Securities. He can be reached at www.sultansq.blogspot.com. Opinions expressed in this article are those of the author and do not necessarily represent those of the MONEYworks group of magazines. This article should not be misconstrued as financial advice.