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House prices to fall further

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Dubai house prices, already off some 60 per cent from their peaks, are set to fall a further ten per cent in 2010, a Reuters poll showed, as the emirate's debt crisis will likely delay a property sector recovery to 2012.

Residential property prices in the emirate have only a 13 per cent chance of picking up before 2011, according to the median forecast of 12 analysts at banks, investment firms and research institutions.

Only one of 13 respondents said prices had reached a bottom, while four said they expected a trough to be reached in the first half of this year, three in the second half of 2010 and four in the first half of 2011, the poll showed yesterday.

One said prices would not bottom out until at least the second half of 2011.

Dubai rocked the financial world on November 25 when it said it would ask creditors of Dubai World and its property subsidiary Nakheel to agree to a standstill on billions of dollars of debt as a first step to restructuring.

"The recent woes of Dubai World have further sapped the prospects of a recovery in real estate," said Fabio Scacciavillani, an economist at the Dubai International Financial Centre.

Prices will fall a further three per cent in 2011, according to the median of ten forecasts, but one analyst said prices could still fall a further 40 per cent from current levels.

"Conditions in the UAE property market will remain weak in 2010 because of unfavourable demographics, property oversupply and risks associated with cancelled or delayed projects," said Keith Edwards, head of asset management at The First Investor in Qatar.

"Furthermore, we anticipate continuation of rising vacancy ratios; however, this will depend on the asset quality or location," Edwards added.

Dubai is expected to be oversupplied by 32,000 new homes by the end of 2010, according to Deutsche Bank figures. Before news of the Dubai World debt issues broke, Dubai's once-booming property sector had already been hit hard by the global financial crisis, as billions of dollars worth of projects were put on hold or cancelled.

More than 500 projects have been suspended or cancelled in the UAE, with Dubai the most severely affected, Dubai-based research firm Proleads said in September.

"On a long term [view] we expect the crisis will limit the supply of properties in the market due to the decrease in liquidity and financing," said Sajeer Babu, an equity analyst at National Bank of Abu Dhabi, adding the bank expected property prices to fall another ten to 15 per cent before any major recovery in prices.

Rents in Dubai are poised to fall ten per cent in 2010 and to remain flat in 2011, but four out of 12 respondents expected rents to fall 15 per cent or more in 2010 while three saw prices rising in 2011.

House prices in Abu Dhabi are seen unchanged this year, the median of 11 forecasts showed, with three analysts expecting climbs while one expected a fall of 25 per cent. Prices are then seen rising by three per cent in 2011.

"Abu Dhabi prices are expected to increase due to the mismatch in demand and supply and the nearing of the delivery of some of the projects," Babu said.

National Bank of Abu Dhabi expects a shortage of more than 20,000 homes by the end of 2010 with demand rising due to a population increase and limited supply.

Rents in the capital are seen falling 15 per cent in 2010 and by five per cent in 2011.

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