

Emirates property prices 'fall off cliff' in meltdown

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Property prices in the United Arab Emirates "fell off a cliff" after banks reduced lending and speculators withdrew from the market because of the global economic crisis, Morgan Stanley said in a note to investors.

In Dubai, prices have slumped 25 per cent from the market's peak in September, while Abu Dhabi prices have declined 20 per cent, according to the US investment bank. There were sharp falls in the number of transactions during the fourth quarter, the bank said.

Deteriorating economic conditions, job cuts and the unavailability of mortgages had "resulted in a worse than expected performance in the UAE property market, especially in Dubai", Mai Attia, an analyst based in the sheikdom, said.

Dubai opened its property market to foreign investors in 2002, while Abu Dhabi allowed foreign ownership three years later, fuelling a boom that was boosted by low interest rates.

Banks including HSBC Holdings and Lloyds TSB Group clamped down on mortgages in the last quarter as the global recession started to affect the region, forcing construction companies to scale back projects and cut jobs.

Emaar Properties, the country's biggest publicly traded developer, will be affected most by the drop in prices because two of its projects, Burj Dubai and Old Town, have "taken the biggest hit since the peak", the report said.

Burj Dubai overtook Taipei 101 as the world's tallest building, Emporis Buildings in Darmstadt, Germany, said in a report yesterday.

In Abu Dhabi, Aldar Properties' Raha Beach development was most affected, the report said. The emirate's housing shortage hasn't helped sustain prices as speculators exited the market and financing became scarce.

Emaar's shares dropped 84 per cent in the past 12 months, while Abu Dhabi's two largest developers, Aldar and Sorouh Real Estate, slid 77 per cent and 69 per cent respectively.

Construction projects totalling US\$75 billion (\$147 million) have been either delayed or cancelled in the UAE, HSBC Bank Middle East said. The majority of projects affected were high-end residential and commercial developments.

The UAE government doesn't release official data on property prices in the country or the number of completed transactions.

Emaar ran a "high risk" of customers cancelling purchases or defaulting, Morgan Stanley said. Any new projects undertaken by the Dubai-based company in the next two years might sell at a "significant 'sensible' discount" compared with prices in the past year.

The developer is among six government-owned companies in Dubai whose credit ratings are under review at Moody's Investors Service, the ratings company said.

Rental rates "started to ease in Dubai in December, where we expect the average rents have fallen by 7 per cent" since the summer, Attia wrote in the report.

"Abu Dhabi seems more resilient so far, given its different demand supply fundamentals."

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