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## MEDIA BRIEFING

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# Shortages in high-end real estate loom for Dubai

Oversupply is quickly receding as growing buyer demand coupled with rising interest rates poses a new set of challenges for certain real estate sub-sectors in Dubai

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Dubai is facing the prospect of real estate shortages due to surging demand for high-end property, a leading real estate financier has warned.

"The past year has seen record demand for luxurious and premium properties in the emirate," says Cyril Lincoln, executive vice president, global head of real estate finance and advisory at Mashreq Bank.



# 44%

increase in prices of luxury homes in Dubai across 2021

SOURCE: Knight Frank



# 37,000

residential units delivered in 2021

SOURCE: Core

"But wider macroeconomic conditions could affect how well developers are able to meet this booming demand."

According to real estate consultancy Knight Frank, prices of luxury homes in Dubai grew by 44 per cent in 2021, driven by demand from wealthy international buyers from markets including Russia, India and Europe.

Demand for property in Dubai is growing despite the rise in prices.

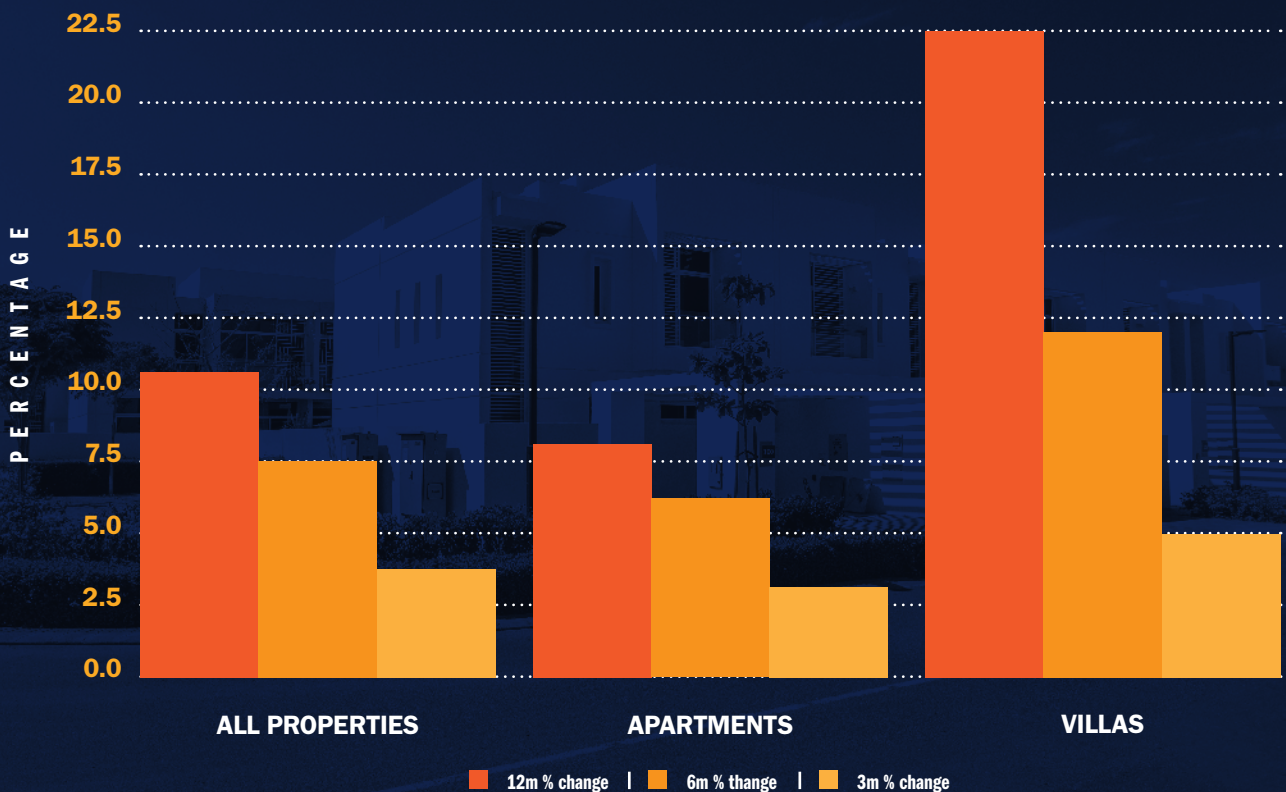
Analysis from market tracker service Property Monitor shows that January 2022 recorded the highest price appreciation since August 2021, in tandem with monthly transaction volumes growing by 2.1 per cent.

Residential sub-sectors including villas and townhouses have seen a steady rise in demand since 2021, underpinned by trends such as remote working and community-living.

Affordability remains at the heart of purchase decisions, but there is a greater demand for community-centred homes as people opt to work from home offices and desire outdoor spaces.

Data from Knight Frank shows that values of villa properties in Dubai have grown by 22 per cent since the start of the pandemic, while

## Dubai, Residential Price Performance, % Change to Q4 2021



apartment prices have seen marginal drops across the same period.

The consultancy further notes that villas are projected to account for just 15 per cent of total new stock expected to come to the market 2022-2025, hinting strongly at the continued outperformance of villas, relative to apartments.

Property consultant Core reports that 37,000 residential units, including 5,900 villas were delivered in Dubai in 2021. Estimates made in January 2022 by Core suggest that a similar volume of units was expected to come to the market, but revisions would be made based on shifting market conditions.

### Factors driving demand

Lincoln notes that Dubai's handling of the pandemic has strengthened its position as a safe and responsible city to invest and live in.

"Despite the health crisis, people never got into a state of panic or feel like they did not have access to proper healthcare or vaccines," he says. "In fact, for a while we even had vaccine tourism where people would fly into Dubai to avail vaccines that were so difficult to access even in some of the biggest cities in the world."

He adds that people that moved here just

before or during the pandemic on a short-term basis have now elected to stay back. He attributes this to the quality of life that the city offers.

"Business hubs such as South Africa, Mauritius struggled to cope, and Dubai served as a good compromise both from a geographic and business environment point of view. It even became a welcome alternative to cities such as New York, that were struggling during the pandemic."

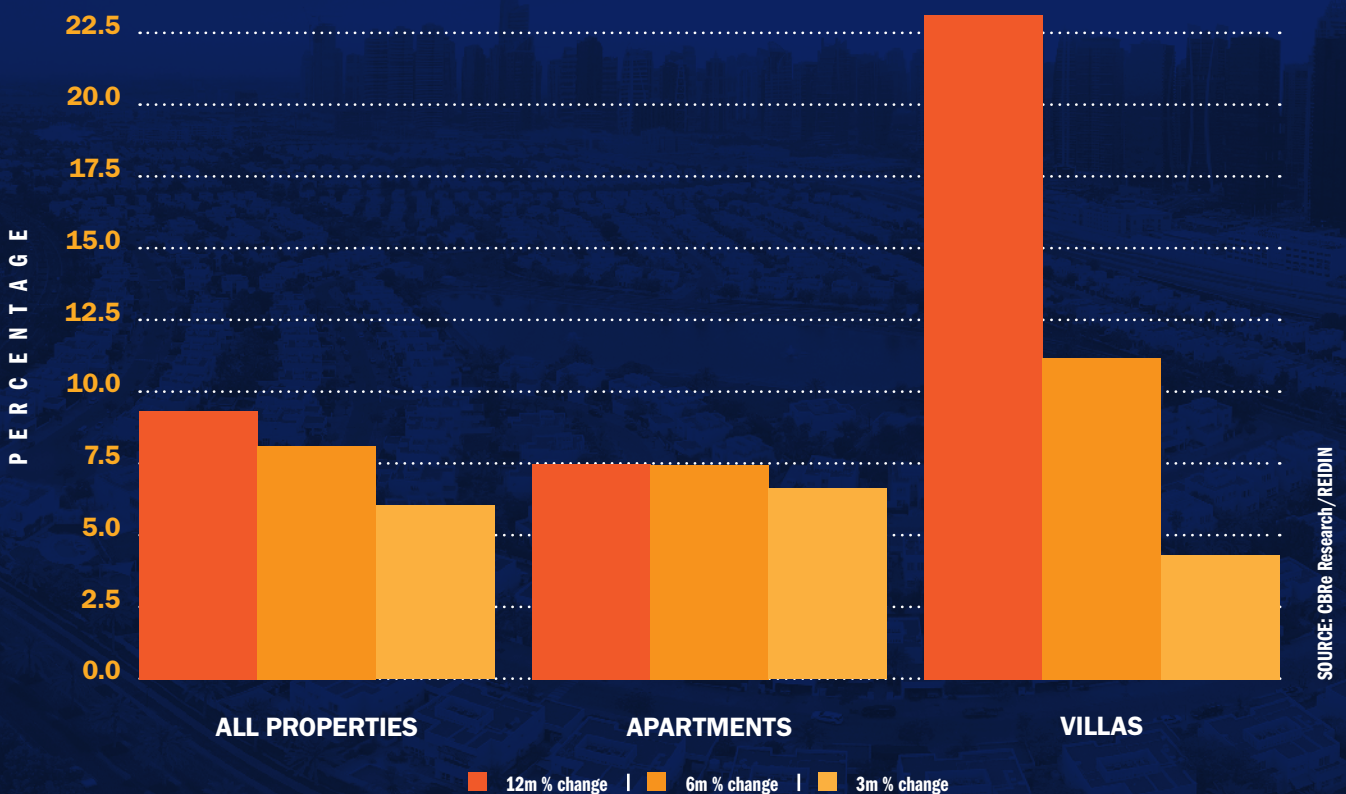
Another factor that has worked in Dubai's favour is the successful hosting of Expo 2020 and the planned integration of the site into Dubai's wider masterplan later this year.

"The gravity of the city is gradually shifting towards the south, and the development of the available land will reap benefits, especially since lot of the supporting infrastructure is already in place," says Lincoln.

Sectors including tourism, aviation and logistics are expected to drive Dubai's economy. Furthermore, the emirate's positioning as a world-class hub for technology, innovation, education and business is only being further cemented by complementary legal reforms and infrastructure such as Etihad Rail.

"There is a lot to look forward to in terms of

## Dubai, Residential Rents Performance, % Change to August 2021



opportunity and economic growth, driven by these factors,” says Lincoln.

### Meeting the demand

Where real estate prices skyrocketed in major cities worldwide, supply glut issues in the Dubai market kept real estate prices depressed. Lincoln notes that this has evened out supply and demand, as the market was more friendly for buyers and investors.

“Developers have also become more careful about the quantity of stock they bring to the market, which has also helped in this regard.”

On one hand the premium property market is witnessing healthy demand. Challenges, however, persist on the supply end. Lincoln expects to see the prices of property plateau at some point.

The way ahead will be influenced by several factors, including rising interest rates and inflationary risk, supply chain disruptions, shortage in materials and geopolitical uncertainty.

“The supply chain crisis in particular has affected shipping costs and pushed up the overall rates and time it takes to get things delivered,” says Lincoln.

“This will create an inflationary effect in terms of the cost of new construction and may act a natural barrier when it comes to future supply, and may make developers more wary with the release of their next projects.”

Lincoln recalls a similar situation that arose in Abu Dhabi in 2014-2015, where a mismatch persisted between the residential stock available and buyer’s demand for affordable property.

“Over 2016-2018, we’ve seen greater consolidation and redundancies, which ultimately led to the issue of excess supply.”

Until a few months ago, the story was centred on consumer price inflation and rising interest rates. But this has now been overshadowed by global geopolitical events, which Lincoln says cannot be ignored.

“In the short term, Dubai is a net beneficiary,” notes Lincoln. “The demand trend will continue, and property prices will help boost profits, especially with the geopolitical events that are directing people to Dubai’s shores. But in the longer run, it could give way to shortages in prime segments while keeping prices elevated.

“Inflation is here to stay and interest rates will have to go up. Real estate is a defensive investment in an inflationary environment, so it will keep people interested in this asset class and demand will persist.”



## Opportunities for Dubai real estate

- Successful handling of the pandemic
- Resumption of business activities post-Covid
- Influx of high-income individuals and investments
- High capital appreciation
- Relative affordability of premium property
- Visa reforms enabling long-term stay
- Easing of business laws and foreign ownership
- Enabling infrastructure networks such as Etihad Rail

SOURCE: Knight Frank, MEED



## Threats to Dubai real estate

- Shortage of residential stock in prime areas
- Hike in interest rates resulting in decline in proportion of mortgaged buyers
- Reputational damage due to grey-listing of the UAE by Financial Action Task Force
- Geopolitical instability regionally and globally

SOURCE: Knight Frank, MEED

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