Dubai property sector reasserts its case for 'safe as houses' billing

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When Dubai-based luxury housing developer Damac listed on the London Stock Exchange in December, it was a standout moment.

From a low point a few years before, property markets in the Middle East have turned round and are booming.

Dubai had the strongest growth of all the world's main housing markets in 2013, according to figures from estate agency Knight Frank - although, with prices still 25 per cent below their previous peak, there is scope for more gains.

The political turmoil in Syria and Egypt has enhanced Dubai's status as the region's haven, says Kate Everett-Allen, head of international residential research at Knight Frank. And, with the global economy showing signs of recovery, expatriates are returning to the area.

In addition, according to Hussain Sajwani, chairman and chief executive of Damac: "High customer demand for luxury product far exceeds a low supply" in the region.

It is not just residential markets that are thriving; investment in commercial property is rising, too.

Investment volumes in the United Arab Emirates rose 97 per cent in 2013 to $1.8bn, according to data from commercial real estate services business Cushman and Wakefield.

As a result, average yields dropped 37 basis points year on year, but they are still 38 basis points above their previous low - potentially offering growth.

The region's property markets are young in international investment terms and have been fluctuating wildly. Dubai's market only opened to foreign ownership in 2002 and foreigners' rights were strengthened in 2006, triggering a rapid boom that rapidly went bust with the onset of the global credit crunch.

Residential property values fell 60 per cent between 2008 and 2011, according to estate agency Savills, with office rents down a similar amount over the period.

As a result, Savills estimates nearly half of construction projects across the UAE were put on hold or cancelled.

With enthusiasm rekindling, the IMF warned last summer that Dubai's government may need to intervene to prevent another bubble.

In response, Dubai introduced cooling measures to deter property speculation, including capping mortgages and doubling property transfer fees to 4 per cent of the sale price.

One crucial factor for the return of confidence is Dubai's winning bid to host the World Expo 2020, which is expected to inject $40bn into the local economy.

Yahya Abdulla, Cushman & Wakefield's head of Middle East capital markets, says: "Dubai winning the right to host the World Expo 2020, and a series of multibillion-dollar regional infrastructure and real estate investment initiatives, suggest significant [property market] potential in the medium to long term.

"We have, perhaps, only seen the tip of the sand dune in the Middle East for real estate investment."

As a result, living costs are rising rapidly. According to Savills' comparative data, total live-work costs in Dubai rose 41 per cent in 2013, making it the seventh priciest city in the world for residents.

Yolande Barnes, director of global research at Savills, says: "Dubai is clearly flexing its muscles as the real business and investment hub of the Middle East. Price rises in the city are a clear reflection of asset price inflation in the recent past."

With Dubai leading the way, property prices elsewhere in the region are beginning to increase.

"While other markets such as Abu Dhabi and Doha are also exhibiting more positive trends, they remain some way behind Dubai in their cycle," says Fadi Mousalli, head of the Middle East and north Africa at property advisory company JLL.

One market in particular is seeing plenty of construction. In 2022, Qatar is set to host the World Cup, and the run-up is triggering a frenzy of construction and investment.

The renewed activity in both Dubai and Qatar is pushing prices up rapidly. "Current price increases are unsustainable and an escalation of construction costs poses a potential threat," Mr Mousalli warns.

But, he adds, the region's previous experience of a volatile property sector is likely to mitigate the risk.

"There is a sense that the market has learnt from past mistakes and [developers] are now phasing projects over a much longer timeframe and basing decisions on a firmer financial basis," he says. "We are observing a movement away from the previous 'build it and they will come' mentality, with investors and developers adopting a much more cautious approach to large-scale projects, which is a positive."

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