

## **Sectoral Reports 2000**

### **Real Estate Market in Dubai** Variables and Numbers

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## **Introduction:**

There has been much argument about the real estate market in different Emirates specially Abu Dhabi, Dubai and Sharjah. It became certain to almost every one that there is imbalance between supply and demand. In light of this vital matter for the national as well as the local market, there are many economic studies about the reasons and factors which caused the imbalance between supply and demand and the price increase in the real estate market.

Since the early 1990's the real estate market has become increasingly important when the price of land and properties have witnessed record increases, along with other factors attracted more capital and investment into the real estate market. There was an increase in the demand of the real estate market because of the return of large number of expatriates after their departure during the Gulf second crisis, coupled with natural population increase and other reasons as it will be explained later. The rental value in the United Arab Emirates is considered to be very high compared with the neighboring countries, which is between 30 to 40%. The return on real estate investment is also considered one of the highest percentages in the world. It is estimated to be 10 – 20% while it is no more than 6% in most of the countries in the world. As a consequence, tens of national firms and companies were established and hundreds of new businesses and shops were opened. Hence the country witnessed a business boom.

However, it is imperative to study the real estate market from statistical point of view so that we may understand the relationship between these variables and their impact on the real estate market. Hence the population of Dubai and the number of tourists, the number of buildings and hotels must be taken into consideration to understand the behavior of the real estate market since 1993 until 1998. Data on 1999 is not fully available.

**Table 1**

Year	1993	1994	1995	1996	1997	1998
<b>Population</b>	610900	650600	689400	711197	756854	805000
<b>%Change</b>		<b>6.1</b>	<b>5.6</b>	<b>3.1</b>	<b>6.0</b>	<b>6.0</b>
<b>* Buildings</b>	593	827	1003	936	1002	1323
<b>%Change</b>		<b>28.3</b>	<b>17.5</b>	<b>-7.2</b>	<b>6.6</b>	<b>24.3</b>
<b>Hotels</b>	167	191	223	233	246	258
<b>%Change</b>		<b>12.6</b>	<b>14.3</b>	<b>4.3</b>	<b>5.3</b>	<b>4.7</b>
<b>Hotel Rooms</b>	9383	10404	12727	13319	14223	17046
<b>%Change</b>		<b>9.8</b>	<b>18.3</b>	<b>4.4</b>	<b>6.4</b>	<b>16.6</b>
<b>Tourists</b>	1087733	1239377	1600847	1767638	1791994	2184292
<b>%Change</b>		<b>12.2</b>	<b>22.6</b>	<b>9.4</b>	<b>1.4</b>	<b>18.0</b>

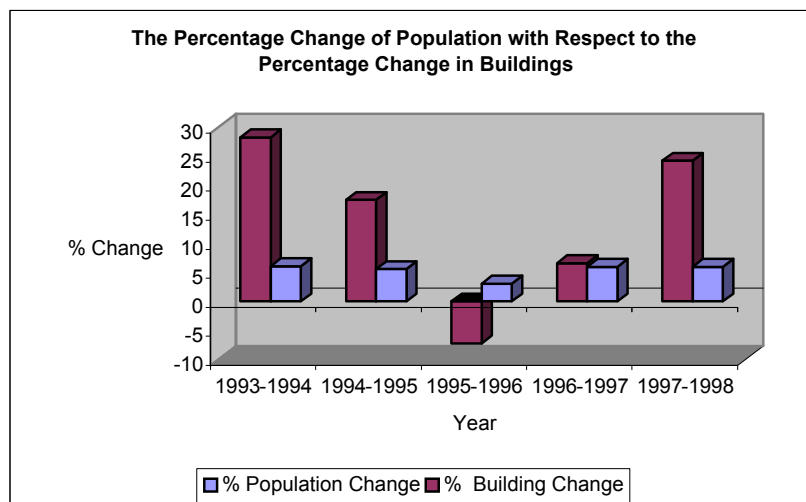
Sources: Government of Dubai, Dubai Municipality, Ministry of Planning, Dep. of Economic Development, Dep. of Tourism

\*Includes all types of buildings excluding hotels

**Table 2**

The Co-relationship between Population and Buildings	<b>0.94</b>
The Co-relationship between Tourists and number of Hotels	<b>0.97</b>
The Co-relationship between Tourists and Number of Hotel Rooms	<b>0.99</b>
The Co-relationship between Buildings and Tourists	<b>0.95</b>
The Co-relationship between Population and Hotels	<b>0.97</b>

### 1. The Co-relationship between Population and Real Estate:



It is admitted that everyone agrees there is a strong relationship between the increase of local population and the demand in real estate market. The co-relationship between population and number of buildings between 1993 and 1998 is 94%. It is considered very strong. In that whole period population was increasing steadily but with different rates. However, the percentage of population increase declined between 1995 and 1996. The most likely reason for that is the passage of the Ministers Council decree number Nine (9) constraining families of the foreign employees to those whose salaries are less than Dh 3,000 with housing allowance or whose salary is less than Dh 4,000 without housing allowance.

Undoubtedly, this legislation had negative impact on the real estate market. As it can be seen from Table (1) the housing and building activities decreased about 7.2% between 1995 and 1996. However, the industry quickly recovered the next year and recorded 24.3% increase in the number of buildings specially the luxury type of buildings and apartments. This high percentage increase in the real market activities between 1997 and 1998 was not timed with a similar increase in the population. The population increased only by 6%. This enhanced today's imbalance between supply and demand in the real estate market.

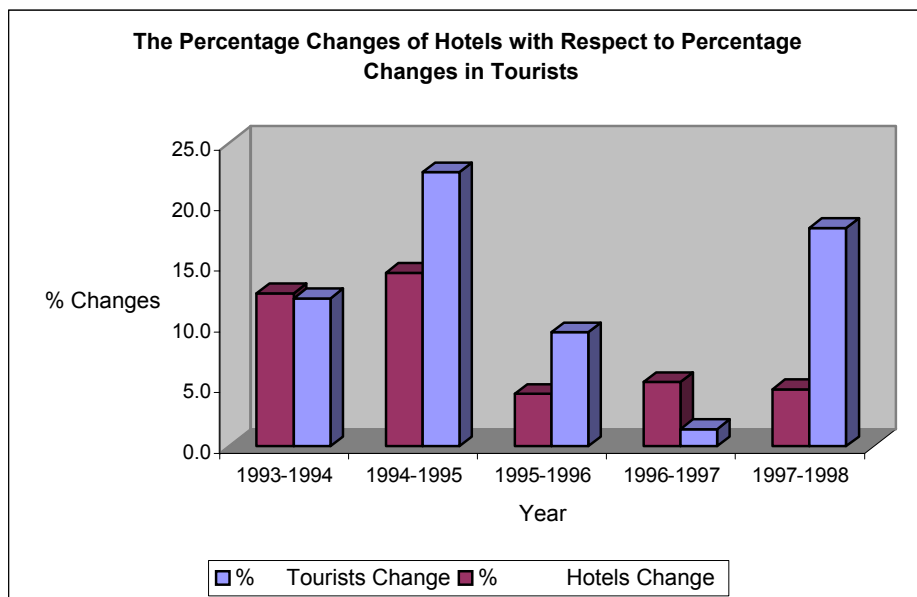
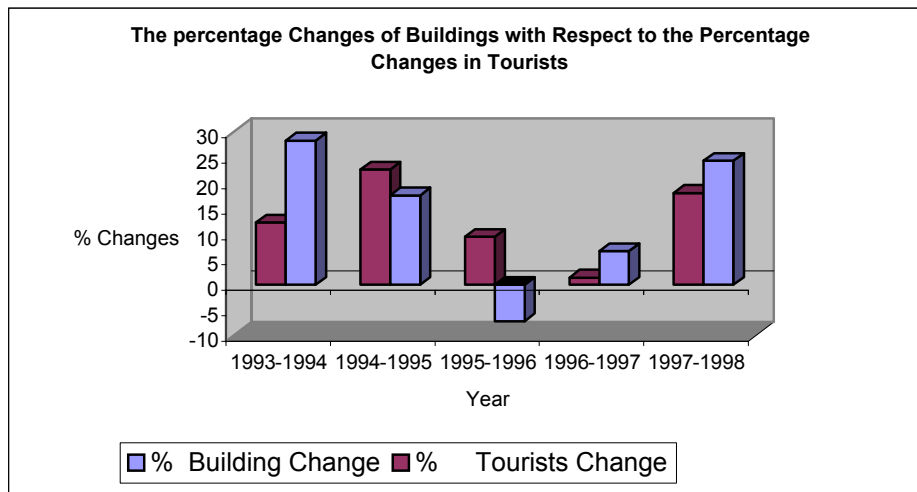
## **2. The Relationship between Tourist Activities and Real Estate:**

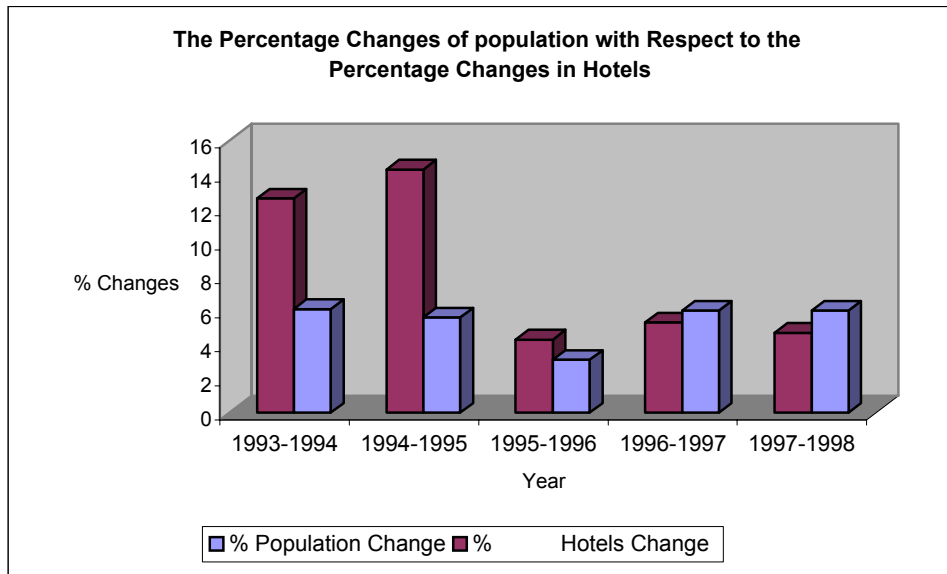
There is a very strong relationship between the number of tourists visiting Dubai and the number of hotels in the city. The relationship between these two variables is estimated to be 97%. The highest increase of tourism in Dubai was in 1995, when it reached about 22.6%. The city witnessed large influx of tourists from within the country, from some European countries and Asian countries.

Another co-relationship study was made on the number of tourists and the number of hotel rooms available in the city. It is estimated to be 99%. This rate is stronger than the rate between tourists and number of hotels in Dubai. This means there is a local trend for building bigger hotels with more rooms than before in the city.

**Table 3**

Year	% Population Change	% Building Change	% Tourists Change	% Hotels Change
1993-1994	6.1	28.3	12.2	12.6
1994-1995	5.6	17.5	22.6	14.3
1995-1996	3.1	-7.2	9.4	4.3
1996-1997	6	6.6	1.4	5.3
1997-1998	6	24.3	18.0	4.7





From the above explanations and from many specialists' reports on the real estate market, it can be inferred that the increase in the price of the real estate market and the imbalance between supply and demand are not necessarily due to imbalance between demand and supply quantitatively as much as qualitatively. It would be useful to look at some factors that have caused the phenomena in the real estate market in Dubai according to researchers and analysts on the matter.

First, there was a price increase in land in most areas of Dubai. This increase ranged from 10% to 50%. In Sharjah the increase was less than that. It was between 10 to 35%. For example the price of land in Furajj Al Murair was between AED 1000 and 11000 per square foot; however, the price today is estimated to be AED 700 per square foot. Also land transactions in Dubai have decreased by 50%.

Second, banks were increasingly encouraged to get into the real estate market due to the quick and high return and low risk on investment compared with other available economic activities such as the stocks and shares investments. The banks' real estate finances are estimated to be between 50 to 60%. When banks finance housing and buildings projects, they play a major role in deciding the rent of apartments in such way to get and recycle their money rather quickly. For

example there is a national bank managing 320 buildings in Dubai and Sharjah and is expecting to get its credit in just 7 years. This bank finances 65% of total cost of building.

According to bankers the central bank constrained at no more than 40% of the total investment package. The central bank also insists on strong guarantees to assure the viability of clients and its ability in paying back the money on time.

Third, there was of course an increase in the cost of building not so much due to the prices of building materials as to the requirements of modern and luxury housing and buildings. New buildings become increasingly equipped with modern facilities such as central air conditioning, swimming pools, health centers, and satellite TV.

Fourth, there has been a big increase in the middle man phenomena in the real estate market. There has been an increase in real estate firms which rent and re-rent apartment and office buildings after they add profit for themselves above the original price of each unit. It was estimated that some of these firms add up to ten thousands (AED 10,000) to the rent of each apartment. Last year there were about 500 licenses to real estate firms and this, according to specialists, is more than the needs of the market.

Fifth, public and private policies have a big role in influencing the price of real estate. More stability in the immigration laws would increase the demand on real estate market and the opposite is also true. In addition, policies of different companies to house or not to house their employees make a big difference in the demand of the local real estate market. If a company gives little or no housing allowance to their employees, Dubai real estate market would either loose these people to another place such as Sharjah or Ajman or these people would be forced to share accommodation with each other. The rate of housing allowance for employees of most of public and private firms and organizations is only 60% of the basic salary. This is only enough to either share accommodation or goes and lives outside Dubai for most employees.

In conclusion, the attitude and behavior of both banks and business people in the real estate market of insists on a quick and big return on investment prompted them to build expensive and

luxurious housing and building units in the emirate. They seemed to have gotten used to the habit of expecting 10 to 12% return on investments while the market demand is looming to be only 8% according to the experts' evaluations. Moreover, the public policies regarding immigration laws, deciding on licensing real estate firms, housing allowance for its employees and for private companies' employees will always have big impact on the real estate market and on the price.

The situation now, is that there are lot of expensive apartments in the real estate market and not enough demand for these kinds of apartments. The situation has become worse because of demolishing older buildings and replacing with more expensive apartments. There is more need for cheaper apartments but the real estate business people are not enthusiastic for these kinds of apartments due to the low and slow return on investment. Some experts think that the government must start building housing units at reasonable rent like the successful experience in Al Qusais, Za'abeel and Karama. Experts in this field think there is now a need for medium cost apartments, with 2 bedrooms and a living room.