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Demand Prospects of Dubai Real Estate

There are many speculations about the future of Dubai real estate market and whether demand for real estate will continue unabated or it will subside and consequently the market will cool down. This article discusses the factors that influence the demand for real estate in Dubai and how to influence them positively in order to promote demand. The primary determinants of real estate demand are population, income, cost and availability of financing, buyers' tastes and preferences, and the expectations of buyers about the future. Each of these factors is discussed below.

Population

For the last 30 years 1975-2005, the population of Dubai has grown by cumulative annual growth rate (CAGR) of 6.9 per cent. This long term growth rate is used to extrapolate, from the population size in 2005 which was 1.321 million, into the coming years. By the year 2010, Dubai population is projected to be 1.845 million. Therefore, Dubai population is expected to increase by 0.432 million people between 2006 and 2010. This gives an annual increase of 0.108 million during a period of 4 years. The later figure can

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مختارات من تقارير وأبحاث إدارة البيانات والأبحاث الاقتصادية (غرفة تجارة وصناعة دبي)

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be used to calculate the number of new residential units that will be needed to accommodate the annual increase in Dubai population. If Dubai is benchmarked against internationally accepted standards, then a residential unit accommodates 2.5 persons. Then 0.108 million people will need 43,233 additional residential units annually to accommodate them. EGF-Hermes estimate is very close to this figure, which is some where in the range of 40,000 to 50,000 units annually.

More people have been coming to Dubai as employees, investors, business travellers, tourists, attending events and conferences and for health and education purposes. This inflow of population has been encouraged by liberalization and simplification of laws, rules and measures in areas such as (i) immigration and residence laws and procedures (ii) labour laws and procedures (iii) business and commercial laws and procedures (iv) real estate and tenancy laws and procedures (v) administration of courts and dispensation of justice.

Income

For the medium term and during the period 2000-2006, Dubai GDP grew by CAGR of 13 per cent in real terms while population grew by CAGR of 9 per cent (as compared to 7 per cent for the long term). Therefore, real per capita income grew by CAGR of 4 per cent during this medium term period. This is an impressive income growth that has positive implications for real estate demand in Dubai. Similar rising trends in per capita income are found for UAE and GCC countries.

For the future, Dubai Strategic Plan (DSP) has projected 11 per cent annual real GDP growth during the time horizon of the strategy 2007-2015. If Dubai long term population growth rate of 7 per cent (as compared to 9 per cent for the medium term) is coupled with the DSP projected growth rate of real GDP of 11 per cent, then this gives a real per capita income growth rate of 4 per cent during the years of the strategy. Therefore, the past trend of per capita income growth is expected to be sustained into the coming years. This is good news for the real estate market. Most of this income growth accrues to the upper and middle income groups who are the primary targets of the real estate developers. Their rising purchasing power is expected to fuel the demand for real estate.

Cost and availability of financing

During the period December 2004 and December 2005 and using UAE Central Bank figures, we find that the real estate mortgage loans for all banks increased by cumulative monthly growth rate (CMGR) of 4.5 per cent. And it increased by CMGR of 5.5 per cent during the period September 2005 and September 2006. This is a clear indication of the availability of real estate financing for those who are contemplating of buying real estate in Dubai. Figures from Dubai real estate financing literature show that commercial banks charge a nominal rate in the range of 7 to 8 per cent while mortgage financing companies (such as Amlak and Tamweel) charge a nominal rate in the range of 8 to 9 per cent, compared to 11 per cent for personal loans. Assuming an annual inflation rate of 7 per cent in Dubai, then mortgage financiers get 1 to 2 per cent real return on capital which is comparable to EU (assuming a nominal mortgage rate of 5 per cent and 3 per cent inflation rate per annum for EU).

This relatively low cost mortgage financing, compared to personal loans, has fuelled the demand for real estate.

The demand for real estate can be promoted if the availability and cost of real estate financing are enhanced. Further opening up and liberalization of mortgage financing markets is expected to promote competition and therefore bring more financial resources for lending and encourage more product innovations that cater for the different needs of the customers. The competition is expected to render the cost of financing and its conditions affordable and therefore entice more people to be involved in the real estate market as investors and buyers.

Tastes and preferences

The taste and preference of people for Dubai is reflected by the growing number of people who come to Dubai whether for doing business, visiting for tourism, attending conferences, sports events, etc. Figures from previous years have shown that demand for Dubai hotel and hotel apartments has increased significantly. The number of Dubai hotel guests increased by CAGR of 13 per cent during the period 2000-2005 while the number of hotel apartments guests increased by CAGR of 8 per cent during the same period. These guests are coming from UAE, GCC countries, other Arab countries, Asian countries, African countries, European countries, American countries and Oceanian countries.

Dubai can develop further its real estate in consistency with its past demonstrated record and diversify to suit new types of tastes and preferences such as fully serviced apartment complexes for elderly and retired people who would prefer to spend the rest of their life in Dubai.

Expectations of buyers

These expectations are about real estate supply, laws and regulations, financing cost and conditions, inflation, employment and economic growth. If buyers are pessimistic about the future of supply, then their demand tends to increase based on the assumption that what they get now is better bargain and may not get it tomorrow when the market is short in supply.

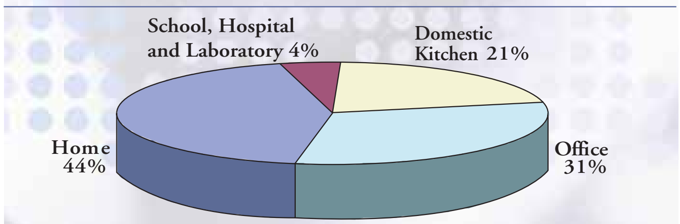
Since people form their expectations and base their decisions on government declared and expected policies, the credibility of government polices is extremely important in the formation of these expectations. For example, buyers of real estate need to correctly anticipate their financing cost based on inflation figures. Government can help in this regard by publishing realistic inflation figures, and other economic indicators, that can positively influence expectations formation.

Dubai Furniture Market

The DCCI has taken initiative in monitoring the Dubai furniture market. As a result of the Dubai real estate boom (increasing number of residential units and commercial properties) the Dubai furniture market is now considered to be one of the largest markets in the region. Additionally, the increase in population has also had a positive ripple effect on the Dubai furniture market. Dubai's furniture products are either locally manufactured or imported. The market offers a variety of products; however the most traded products are home, office, school and hospital furniture.

The DCCI membership database of the 4th quarter, 2006, accounts for 2,965 furniture companies; of which 82.5 per cent are traders and 17.5 per cent are manufacturers. Within these two main activities, furniture companies are further classified by product categories. Figure 1 shows, classification by products for furniture traders.

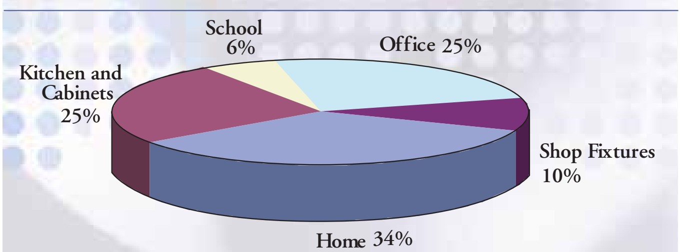
Figure1: Furniture Traders by Product Type



Source: DCCI Membership Database

Approximately, 44 per cent of furniture traders are actively involved in home, 31 per cent in office, 21 per cent in domestic kitchen, and the remaining in schools, hospitals and laboratory furnishings. Where as, among the manufacturers about 34 per cent manufacture home furnishings, 25 per cent kitchen and cabinet furnishings, 25 per cent office furnishings, 6 per cent school furnishings and 10 per cent shop fixtures (See figure 2).

Figure 2: Furniture Manufactures by Product Type



Source: DCCI Membership Database

Dubai foreign trade for furniture

In 2005, the total furniture foreign trade of Dubai amounted to AED 2.7 billion of which 70 per cent were imports, 25 per cent re-exports and only 5 per cent were exports.

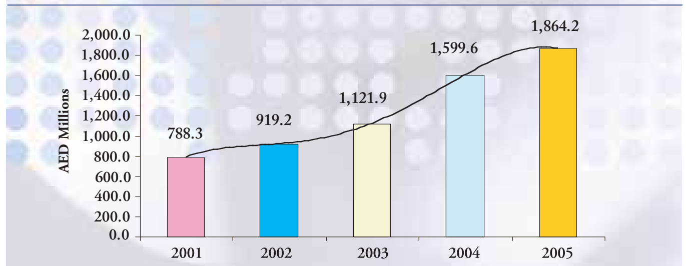
Table 1: Dubai Furniture Trade 2001 – 2005 (AED Million)

Years	Import	Re-export	Export
2001	788.3	205.6	41.9
2002	919.2	328	49.7
2003	1,121.6	481.3	46
2004	1,559.6	529.7	70
2005	1,864.2	692.2	125.4

Source: Dubai ports and Custom Authority

In view of the table above, the export value in 2005 has almost tripled from its value in 2001, thus indicating the increase in local manufacturing of furniture. Similarly, in 2005 re-exports and imports also grew. The re-exports of furniture more than doubled, whereas imports increased by almost 3.5 fold from their value in 2001 (see figure 3).

Figure 3: Dubai's Furniture Imports, 2001 - 2005



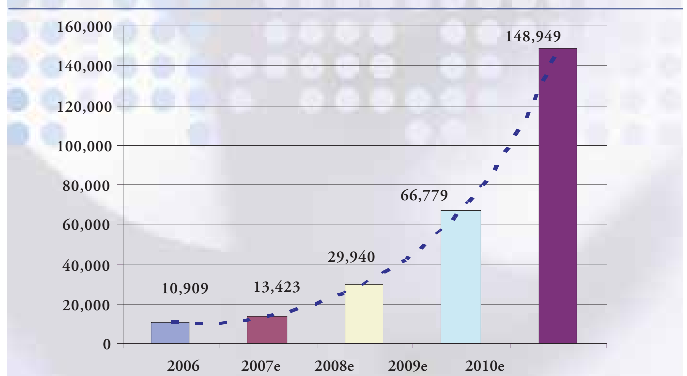
Source: Dubai ports and Custom Authority

The import growth shows that the furniture trade is growing by leaps and bounds at an annual growth rate of 24 per cent as a direct result of the growing real estate market.

The comprehensive Dubai statistical survey of 2000 and the Ministry of Economy census of 2005 indicated that the total number of housing units has increased by 41.4 per cent from 145.4 thousand units in 2000 to 205.5 thousand units in 2005. With respect to residential properties, villas increased by almost 100 per cent, while flats increased by 48 per cent during the same period.

The forecast for real estate market for the years 2006 – 2010 is shown in the figure below.

Figure 4: Flow of the housing units in Dubai, 2006-2010*



**DCCI forecast*

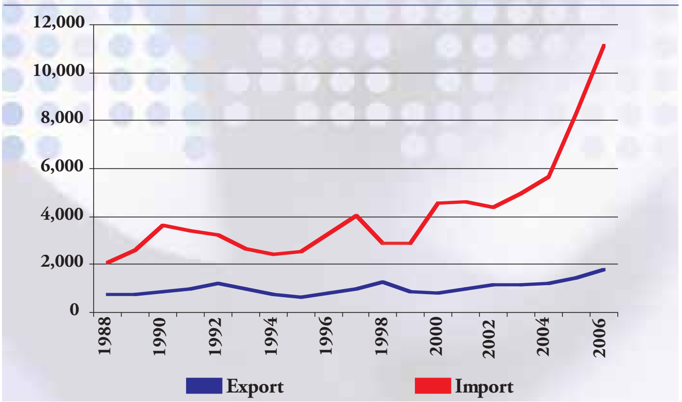
The positive correlation between the real estate and the furniture market indicate that as the former grows the latter will follow.

Based on the above and given the planned real estate projects of about $143 billions spread out all over the country, in addition to estimated population growth rate of 7 per cent, the furniture market has great potential growth. These high expectations could considerably boost the development of small and medium size establishments. Further it will be a key player in opening up new opportunities for investors, thereby improving quality of production and making it viable for local businesses to successfully compete in GCC and regional markets.

Japan's trade with GCC expanded by 33% in 2006

Reports of Japan Customs show that the country's trade with GCC continued to accelerate in 2006, reaching a total of JPY 13 trillion, for an expansion of 33% over the corresponding value in 2005. The increase was primarily due to soaring imports, reaching a new height of JPY 11.1 trillion (Fig. 1). With Japan's exports to GCC remaining relatively stable, reaching a total of JPY 1.8 trillion, trade deficit was pegged at JPY 9.3 trillion for 2006.

Table 1. Value of Japan's trade with GCC countries, 1998-2006



Source: Japan Customs

Saudi Arabia is Japan's largest import market in the GCC, while UAE is the largest export market

During the last five years, from 2002 to 2006, Japan's imports from GCC grew at an average year-on-year growth of 21%, while corresponding export growth was 13%, leading to widening trade deficit for Japan. Japan's imports from the GCC in 2006 were dominated by imports from Saudi Arabia (KSA) and from the UAE. Imports from Saudi Arabia reached a total of JPY 4.3 trillion, of which 99% were petroleum oil and petroleum oil products. Total imports from UAE was valued at JPY 3.7 trillion (Table 1).

On the other hand, lowest import value was registered for Bahrain, at JPY 62 billion; and Oman, JPY 311 billion. Imports from Qatar and Kuwait were JPY 1.7 trillion and JPY 1.1 trillion, respectively. About 99% of imports from these countries were petroleum oils and other oil products, except for imports from Bahrain where the products accounted for only about 78% and aluminum and aluminum products accounted for about 22%.

Japan's largest export market in the GCC in 2006 was UAE, with total export value of JPY 703 billion, from JPY 369 billion in 2002, for an annual average year-on-year growth of 37%. On the other hand, exports to Saudi Arabia increased at an average year-on-year growth of only 5%, from JPY 470 billion in 2002 to JPY 540 billion in 2006. Thus, exports to UAE accounted for almost half of the 13% average year-on-year growth of exports to the GCC during the 5-year period. Other GCC countries where Japan's exports posted impressive average year-on-year growth were Qatar (37%) and Bahrain (27%). Total values of exports to these countries in 2006 were JPY 170 billion and JPY 63 billion, respectively; while respective values of Japan's exports to Oman and Kuwait during the year were JPY 201 billion and JPY 139 billion.

Mineral products dominate Japan's imports from UAE, while vehicles top exports

Table 2 presents the major products Japan traded with UAE in 2006. As seen from the table, mineral products accounted for 99% of Japan's total imports from UAE during the year, 83% of which were crude petroleum oils. The rest were primarily unwrought aluminum and aluminum wastes.

Table 1. Value of Japan's trade with GCC countries, 2002-2005

values in JPY bn

Year	Flow	Total (GCC)	GCC Memeber Countries					
			Bahrain	KSA	Kuwait	Qatar	Oman	UAE
2002	Import	4,371	20	1,455	526	657	262	1,450
	Export	1,132	32	470	108	46	107	369
	Total	5,503	52	1,925	634	703	370	1,819
2003	Import	4,946	16	1,689	529	755	294	1,663
	Export	1,179	40	431	121	55	112	420
	Total	6,124	56	2,119	650	810	406	2,083
2004	Import	5,657	30	1,996	621	852	176	1,982
	Export	1,229	42	397	101	64	126	498
	Total	6,885	72	2,393	722	916	301	2,481
2005	Import	8,324	35	3,171	843	1,178	302	2,795
	Export	1,437	47	461	131	110	153	535
	Total	9,761	82	3,631	974	1,288	455	3,330
2006	Import	11,145	62	4,325	1,058	1,721	311	3,667
	Export	1,816	63	540	139	170	201	703
	Total	12,961	125	4,866	1,197	1,891	512	4,370

Source: Japan Customs

Although Japan's exports to the UAE were more varied, transport equipment and parts accounted for 42%, while machinery and electrical and electronic equipment accounted for 30%. Of the former group, 66% were motor cars, including station wagons and racing cars; while parts of motor vehicles accounted for 18%.
Other products with significant contribution to total export value of Japan to UAE were base metals and metal products (primarily iron and steel products), contributing 10%; plastic and rubber products (primarily rubber tyres), 7%; and textiles and textiles articles (primarily synthetic filament and staple fibers), contributing 3%.

Other groups contributing about 1% to total exports were chemicals and chemical products (primarily organic chemicals and photographic and cinematographic goods); stone, cement, ceramics; glassware and optical, medical, measuring and musical instruments.

Table 1. Value of Japan's trade with GCC countries, 2006

Major imports from UAE		
Product	Value	Share (%)
Mineral products	3,628	98.9
Major exports to UAE		
Vehicles, aircraft, & transport equipment & parts	299	42.5
Machinery, electrical & electronic equipment & parts	210	29.9
Base metals and products thereof	67	9.5
Plastic and rubber products	50	7.1
Textiles and textile articles	18	2.6
Optical, medical, measuring & musical instruments	10	1.5
Chemicals and products of allied industries	9	1.3
Stone, cement, ceramic & glass products	8	1.2

Source: Japan Customs

Dubai's data for 2004 and 2005 showed increasingly tendency of the emirate to import directly from major producers. The latter included Japan as Dubai's supplier of vehicles, machineries and electrical and electronic products. With Dubai being the major destination of Japan's exports to UAE, the increasing level of exports observed during the last 5 years could be expected to continue in the immediate future.

How can UAE products benefit of the GAFTA

The Greater Arab Free Trade Area (GAFTA)[1] is considered one of the significant achievements of the Arab Economic and Social Council in the context of the Arab League. GAFTA was announced and agreed on its articles and principles in 1996 and its implementation has started as of 1998 adopting a gradual approach to achieve its goals. The pact considered the economic and trade conditions of the member countries in phasing out the reduction of tariff rates until completely removed in 2005.

Recently, the UAE Ministry of Economy has provided new and valuable information on the GAFTA regarding how the UAE producers can benefit of it. As Dubai Chamber of Commerce and Industry is keen to inform the business community, in the emirate in particular and the country in general, with the latest developments we hereafter review some advantages of GAFTA and the means of getting benefits out of it.

Advantages of GAFTA

The GAFTA has several benefits and advantages for the Arab trade in general and the UAE products in particular. Moreover, the agreement has direct and indirect effects and benefits on the national product exports, these effects can be summarized in three major cores:

Firstly, opening the markets of the Arab countries to the UAE exports and overcoming the main obstacles such as tariff or non-tariff barriers, which previously hindered the access of the UAE exports to these markets. Consequently, this will reinforce the exporting capabilities of the national products the matter that will contribute in increasing the trade exchange with the Arab countries.

Table (1): Procedures of certification in the GAFTA member countries

Country	Procedures
Jordan	Certification cancelled
UAE	Certification cancelled
Bahrain	Certification cancelled
Tunisia	Does not necessitate the certification
KSA	Does not necessitate the certification
Sudan*	-
Syria	Certification cancelled
Iraq*	-
Oman	Certification cancelled
Palestine*	-
Qatar*	-
Kuwait	Certification cancelled
Lebanon	Does not necessitate the certification
Libya	Certification cancelled
Egypt	Certification cancelled
Morocco	Does not necessitate the certification
Yemen	Certification cancelled

** Countries that did not inform the General Secretariat of the Arab League whether they have cancelled the certification or basically they do not necessitate certification.*

Secondly, overcoming the financial burden faces the UAE exports when entering markets of these countries represented in: a) total exemption of customs tariff when trading with member countries, which implemented since 2005, and b) canceling certification and its fees that used to be imposed by some Arab embassies on certificates of origin and accompanied bills according to table (1).

1 GAFTA member states are 17 as shown in table (1) blow.

Thirdly, expansion of the markets receiving UAE exports in the Arab world and implementation of economies of scale will have indirect effects on the internal investments.

Who benefits directly of the GAFTA?

It is clear that establishing the GAFTA and the bilateral agreements between UAE and several Arab states with the same principles and provisions of the GAFTA will have direct benefits on exporters, importers and consequently on the UAE trade sector and its workers.

How can exporters benefit of the GAFTA?

For the purpose of this agreement, for the product to be considered of Arab origin, it should have the rules of origin approved by the Arab Economic and Social Council that stipulate the value added of its production in the country (product input) is not less than 40% of the final value of the product.

It is to be mentioned that the value added of products manufactured in the Arab countries is calculated according to the following factors and principles:

1. Total salaries and wages.
2. Depreciation of fixed assets.
3. Rents.
4. Bank interests.
5. Intermediary raw material of national origin.
6. Miscellaneous expenses.
7. Fuel, electricity and water.
8. General and administrative expenses.

As previously mentioned, this agreement aims to accomplish the economic integration between the Arab countries that embodied in the principle of "accumulation" agreed upon between the members. This principle requires that if products of the Arab countries have been used as inputs to produce new specific product, it will consider these inputs part of the value added factors and they will be counted when calculating the condition of 40%. This step assures the Arab states endeavor to achieve the Arab economic integration.

Based on what mentioned earlier, UAE exporters could benefit of the GAFTA at fulfilling the following two conditions:

a) Availability of industrial license for the factory registered with the Ministry of Finance and Industry explaining the type of activity that the factory practices.

b) Obtaining a national origin certificate from the Ministry of Economy at the country assuring that the product is national and achieves at least 40% as value added.

What are the products exempted from the provisions of the agreement?

Products that are forbidden to be imported, traded, and/or used for religious, health, security, environmental reasons or rules of agricultural quarantine, will be exempted from the execution program of the GAFTA. The member countries are obliged to provide details on these products and any amendments occurred.

Finally, according to what mentioned earlier, we conclude the huge facilities the GAFTA offers to the UAE exporters the matter that call for benefiting of these facilities ideally for the direct advantage of the national exporters in part and the economy as a whole.