

Dubai's real estate sector on the road to recovery

Dubai is a country built on tourism, renowned worldwide for its lavish hotels and luxurious resorts. Naturally construction and real estate are very popular sectors in such a country. When the recession hit the UAE, Dubai's real estate industry suffered and investment declined at an alarming rate, leaving the country in a slump. In late 2009 it was revealed that Dubai had \$20 billion worth of debt. The global downturn also left Dubai unable to offload some of the most extravagant real estate units, with 2010 witnessing a 5 percent drop in the property sector.



I believe that all the main sectors have registered varying proportions of growth (in 2010), except property and construction which saw a five percent drop," reveals Sami al-Qamzi, director general of the Dubai department of economic development.

Growth in the construction sector is based on supply and demand, thus "its recovery will take a longer time," adds Qamzi, who was speaking on the sidelines of the Global Agenda Summit in Dubai.

Shahram Safai from Afridi & Angell explains the extent of damage suffered in the real estate sector in Dubai: "The recession has been a global phenomenon significantly impacting real estate prices in the major cities of the world.

However, in Dubai, following the announcement of the provision of financial support from Abu Dhabi in late 2009, the negotiations about the restructuring of Dubai World and its subsidiaries, including the real estate developer Nakheel, ("DWG") are progressing well. Such financial support has led many market participants, creditors and observers to acknowledge that such DWG debt is politically (if not legally) backed by a sovereign guarantee (albeit from Abu Dhabi). This has provided comfort to some in the market.

As a backdrop to the DWG negotiations, the first real estate development cases have been filed at the tribunal specially established to hear all disputes involving DWG.

The difficulties of DWG are symptomatic of the entire market, with work at many developments being down-sized or placed on hold. Notwithstanding that slowing in the rate of construction, further projects have completed in 2010, releasing fresh stock onto the market. This has led to some commentators describing the market as over-supplied, and predicting further falls in prices and rental levels.

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The Global Financial Crisis emanating from the U.S. and the European Debt Crisis of 2010 involving Ireland, Portugal and Spain have resulted in a globally uncertain investment climate. This, in turn has impacted successful emerging markets such as Dubai, which continues to be the leading business hub for the Middle East. As such, it is strongly focused on attracting and retaining foreign investment and trade. Hence, Dubai will continue to weather the global financial storm to the best of its abilities and is positioned to emerge sooner from the storm than many developed economies.”

The lack of financing led to increased litigation cases between real estate owner and occupier.



However the parties involved quickly realised that this was not the most effective way of resolving legal disputes due to most processes becoming quite lengthy and costly. “Although many off-plan purchasers do continue to commence litigation against developers, there is a growing awareness in the marketplace about the length of time that litigation can take and that even if the purchaser is successful, the developer will only have to make a minimal contribution towards the purchaser’s legal fees.

Given this, there is an increasing focus on negotiating settlements with developers, for example transferring to a more progressed project or accepting the refund of a fraction of the total monies paid.” Says Mr Safai.

Despite the unfortunate economic situation, Dubai is still highly sought after not only as a holiday destination for couples and families alike, but also as a long term investment. Dubai has created a prestigious image for itself which is its redeeming factor that will pull it out of the financial depression it recently experienced. **LM**

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