Monday, March 30, 2015
GULF TIMES
BUSINESS

Changing dynamics in property market

By Dr R Seetharaman

New home sales rose 7.8% in the US in February 2015. Most sales activity continues to be among existing home owners who are taking advantage of low mortgage rates. In the US the existing home inventory is at a level of 1.85mn for December 2014, down from 2.08mn in November 2014 and down from 1.86mn one year ago. The current economic indicators of the US housing market health indicate that they are stronger than their historical levels.

The UK's house prices rose by 0.1% in March 2015; however, in some parts of the country prices are lower than that at the start of the year. The UK property market is likely to remain subdued up until the general election in May 2015.

Singapore's home prices fell 4% in 2014. The slump came as Singapore added more measures to rein in property values with some of the strictest measures, including capping total debt repayments at 60% of a borrower's income. The Singapore government aims for a soft landing for the housing market.

The recovery in China's property market remains fragile, with new-home prices rising in only one of 70 cities. Average prices fell 5.1% from a year earlier, the biggest drop on record. The nation's first interest-rate cut since 2012 in November and the removal of property curbs have yet to revive an industry that became a drag on economic expansion last year.

China's has issued new directives to curb the overhang in housing supply across China. Land supplies will be decreased in cities with excess housing available.

Low interest rates, low inflation and drop in oil prices can give room for bubbles in Japan property market.

India property market hopes on rate cuts to revive its growth.

The UAE market is going through a period of correction; the fall in oil prices are to further impact property sales market in the short- to medium-term in the UAE, particularly Dubai, as domestic, regional and international investors from key oil dependent markets reign in investment.

Dubai home prices climbed 18% in 2014. The strengthening of the US dollar and the weakness of the euro also means that demand from European buyers has also begun to wane, in turn adding further downward pressure on residential property prices in Dubai.

In Abu Dhabi house prices would remain stable or fall slightly. Oil prices could have an impact on corporate sentiment which could be reflected in the office real estate prices. On the retail segment too, there could be some impact if consumption spending is impacted.

On the residential side, weakening macroeconomic situation could dampen investor demand. The above developments can also impact economic growth.

In Saudi Arabia, there is encouragement for accelerated new home delivery. Encouraging real estate activity on unused land are also under consideration on account of demand from surging population.

However, concerns of prices due to fall in oil price also remain. The real estate loans of Saudi banks to individuals and corporate amounted to SR148.9bn by the end of 2014. The loans value rose by 31% compared with 2013 to reach SR113.7bn. The individual property loans grew by 34% to SR94.2bn by the end of 2014 compared to SR70.3bn in 2013, whereas corporate loans rose by 26% to SR54.7bn compared to SR43.4bn. The gross trade value for a property in Oman has witnessed a remarkable growth that stood at OMR2.7bn in 2014, compared to OMR1.5bn in 2013. GCC nationals are encouraged to buy real estate properties in Oman due to the government policies as well as building mega projects nationwide.

Bahrain's commercial real estate sector is witnessing stagnant growth as a dip in economic output, and an overhanging supply of commercial space combine to keep rental rates down.

In Qatar, office developments are coming up on 'C' and 'D' Ring Road and in Al Saad. However, limited leasing activity are witnessed. Many towers in West Bay are leased to government organisations. The organised retail market is currently dominated by the Villagio and City Centre malls. Medina Central on the Pearl-Qatar and Barwa Commercial Avenue have increased retail space.

There are currently approximately 125 hotel establishments currently under construction in Qatar. There was a slowdown in number of hotels built in 2014, combined with the increase in tourist numbers, resulting in a jump in occupancy levels. Occupancy levels are likely to be tested further in the medium term as the supply of hotel rooms continues to increase to meet Qatar's FIFA 2022 obligations. West Bay and Pearl witness new residential developments, and rentals have remained stable in 2014.

WTI and Brent settled to $48.87/barrel and $56.41/barrel by end of last week as fears about the disruption of Middle East crude shipments from Yemen's conflict eased, and focus turned to the likelihood of an Iranian nuclear deal which could increase oil supply.

The recent oil price rallies have been short-lived. If the low oil price levels persist, it may lead to slowdown in the GCC property market.

The dynamics have changed in GCC property market on account of fall in oil prices.

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