



# Colliers International House Price Index

DUBAI | SECOND QUARTER | 2008

## SUMMARY

The overall growth rate in the index slowed from 42% in Q1 2008 to 16% in Q2 2008. Nevertheless, this average price increase remains significantly high when compared to other major international cities. Prices increased across all market sectors covered in the index. Demand for residential property mortgages, which is also an indicator of the demand for property, was very strong and increased significantly from the previous quarter. This increase in demand has caused the prices to increase as supply remains short. Other factors that contributed to the increase in prices include:

- Projects at or near handover appear to enjoy a spike in prices.
- Increasing construction costs.
- Rising inflation.
- Increasing residential property rents.
- Erosion of the U.A.E currency value.

## INDEX RESULTS

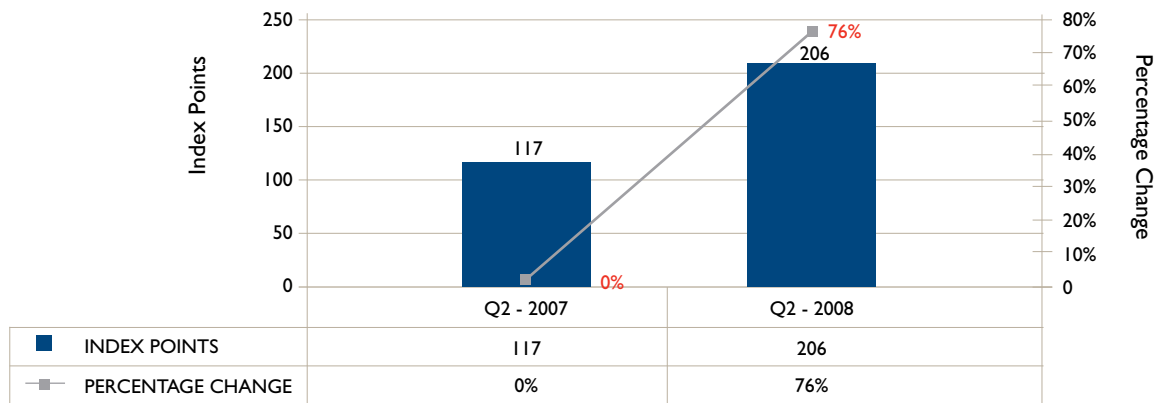
- A quarterly upward change for the overall index of 16% between Q1 2008 and Q2 2008.
- A year on year increase of 76% between Q2 2007 and Q2 2008.
- The blended average rate per ft<sup>2</sup> for residential property in Dubai in Q2 2008 was AED 1,833 (AED 19,730 per m<sup>2</sup>).
- Apartment prices increased by 83% in Q2 2008 compared to Q2 2007.
- Villa prices increased by 73% in Q2 2008 compared to Q2 2007.
- Townhouse prices increased by 38% in Q2 2008 compared to Q2 2007.



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## ANNUAL OVERALL DUBAI FOREIGN OWNERSHIP INDEX



The Annual Overall Dubai Foreign Ownership Index indicates that there has been an increase in the index value in Q2 2008 compared to Q2 2007. This increase has been calculated at a rate of 76%. The index has risen to 206 index points from the base quarter (Q1 2007).

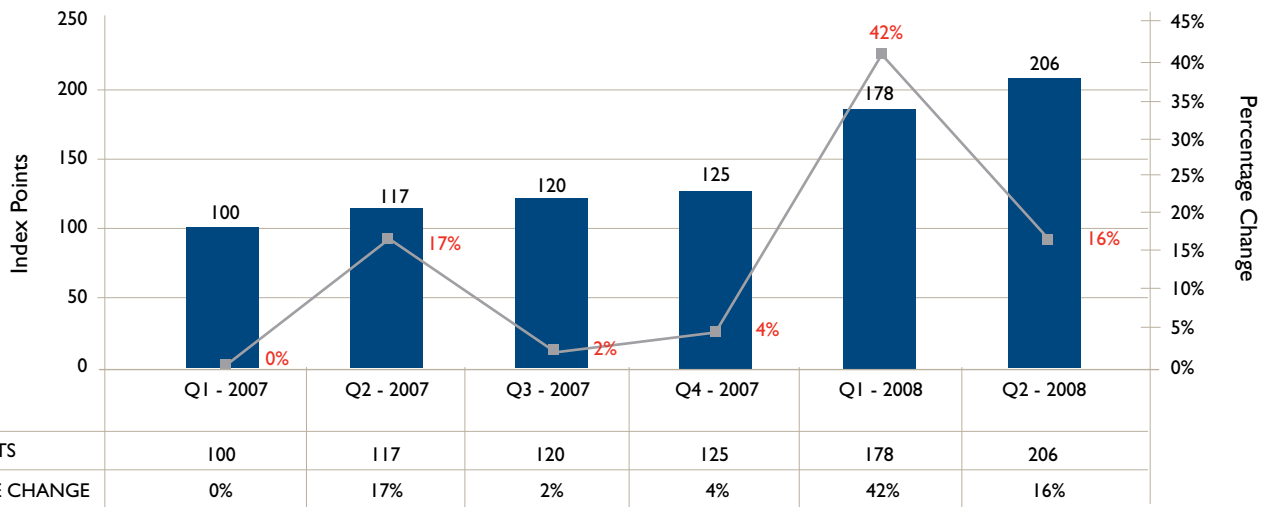
Property prices in foreign ownership zones continue to increase. This price increase has been driven by the following:

- Projects at or near handover appear to enjoy a spike in prices as the mass of speculative investors exit their holding of the development and long-term investors or end-users enter these projects.
- Increasing construction costs: Prices of building materials are expected to increase by 20% this year according to Currie & Brown (CI) Ltd, a leading international Quantity Surveying and Project Management firm. According to Brian Schofield, Business Unit Director, Currie & Brown (CI) Ltd. "It seems likely that the ongoing increased pressures on the construction supply chain will continue to contribute to the existing trend of cost escalation. We believe the resulting annual cost escalation to be in the region of 20%." Developers have been forced to reassess their base acceptable sale price in the context of increasing construction cost in order to maintain a viable development margin. So far, buyers have proven willing to absorb these cost driven price increase.
- The supply side inflationary pressures on the real estate and construction sector in Dubai have led to an escalation in residential property prices. U.A.E economic inflation increased to 11.1% in 2007<sup>(1)</sup> and is expected to increase to 12% this year. <sup>(2)</sup>
- The economy of the United Arab Emirates, and especially Dubai, is achieving high growth rates in real GDP. Dubai's real GDP is growing at a rate of 11% per annum. The expansion of existing organisations and the entry of new companies in the context of robust local economic conditions have intensified demand for staff. This has manifested itself in the influx of approximately 200,000 new workers last year with an estimated annual growth rate of 7.32% until 2010 <sup>(3)</sup>. Although much of this population growth is contributed by the continuous influx of blue-collar labour, demand for white-collar expatriate housing nevertheless still outweighs current supply.
- More than 23 banks and financial institutions, national, regional and international are now providing competitive mortgage facilities for both residents and non-residents. The competitive interest rates (5.5%-8%) and flexible home finance offered by these mortgage providers are helping to open the mortgage market to end users and investors alike. Borrowers who would have previously had difficulty obtaining mortgage finance now have numerous options available to them. In addition to these favourable mortgage options, the process for mortgage approval is now becoming faster and less laborious.
- Increasing residential rental rates in Dubai are making ownership more appealing and cost-effective for residents.
- The decline in value of the U.A.E. Dirham in relation to other global currencies has enhanced the attractiveness of Dubai property to expatriates. The Dirham started declining in the first half of 2007 and there continued to be a downward trend in the following months. Figures released by the U.A.E central bank covering Q1 2008 showed the value declined by 7.8% against the Pound Sterling, 8.3% against the Euro, 3.9% against the Swiss Franc and 4.4% against Special Drawing Units of the International Monetary Fund<sup>(4)</sup>. Although subsequent dollar recovery may impact movement in the Q3 2008 index, this recovery has happened after the close of the Q2 2008 index period.
- The decline in the U.A.E. financial markets has led to investors withdrawing their investments from the stock market and investing in the property market for higher returns. This action has again increased demand for property in Dubai. Investor demand in turn has been driven by increased liquidity due to global high oil prices and the repatriation of capital away from traditional western markets back into the region.

The average blended rate per ft<sup>2</sup> for residential foreign ownership property in Dubai in Q2 2008 was AED 1,833 (AED 19,730 per m<sup>2</sup>). The average blended rate per ft<sup>2</sup> for properties under construction in Dubai in Q2 2008 was AED 1,908 (rate per ft<sup>2</sup> excluding Downtown Burj Dubai was AED 1,400). The average blended rate per ft<sup>2</sup> for completed property in Dubai in Q2 2008 was AED 1,783 (rate per ft<sup>2</sup> excluding Downtown Burj Dubai was AED 1,679).

(1) Official figures by U.A.E Ministry of Economy (2) Estimates by Merrill Lynch (3) Dubai Statistics Centre (4) U.A.E Central Bank figures.

## QUARTERLY OVERALL DUBAI FOREIGN OWNERSHIP INDEX

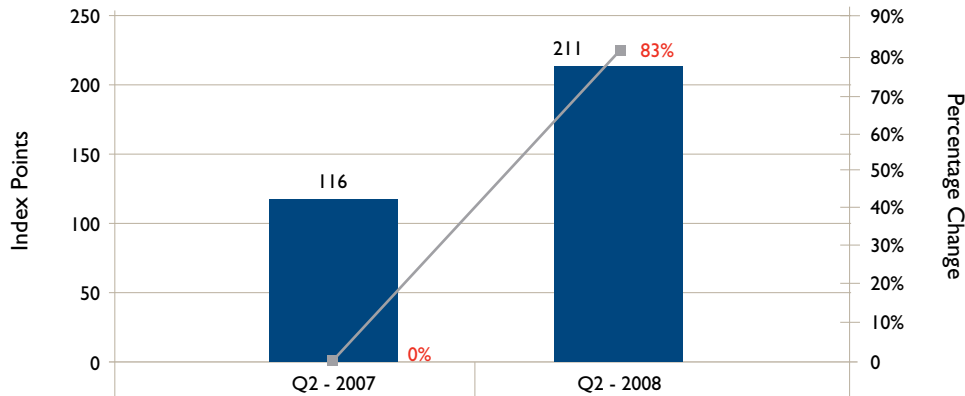


- Property prices in Dubai continued to increase in Q2 2008. The index rose 28 points to reach 206 basis points. A 16% increase from Q1 2008.
- The blended average rate per ft<sup>2</sup> for residential property in Dubai in the Q2 2008 was AED 1,833 (AED 19,730 per m<sup>2</sup>).



## TYPE OF PROPERTY INDEX

### ANNUAL OVERALL APARTMENT INDEX



■ INDEX POINTS	116	211
—■ PERCENTAGE CHANGE	0%	83%

The Annual Overall Apartment Index increased by 83% in the Q2 2008, compared to Q2 2007. The index rose to 211 points from 116 points.

The continuous increase in prices of Apartments in developments such as Downtown Burj Dubai, Jumeirah Beach Residence, The Palm Jumeirah and Jumeirah Lake Towers has positively affected the Q2 index. There were several reasons for price increases in these developments. The main reasons were as follows:

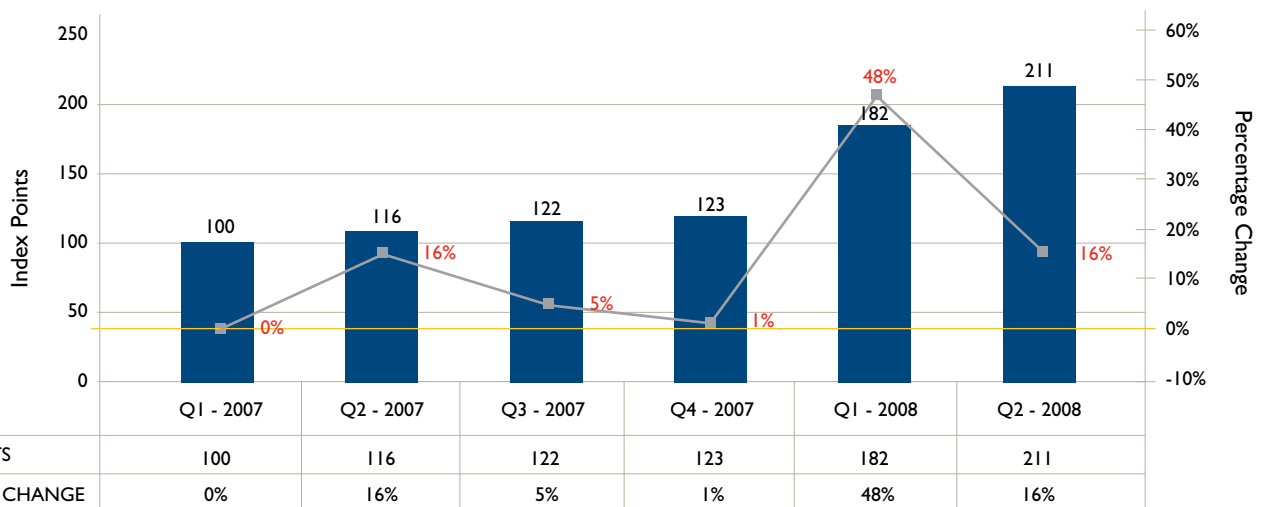
- The launch of new projects in Downtown Burj Dubai at a higher rate per ft<sup>2</sup> inflated prices in the overall development, leading to vendors reassessing their sale prices.

- There is a high demand for units in these developments, driven by their location and perceived prestige. It also should be noted that completion of additional dwellings in these developments increased the demand from long-term/end-users for properties.

The blended average rate per ft<sup>2</sup> for apartments in Dubai in Q2 2008 was AED 2,138 (AED 23,013 per m<sup>2</sup>).

Apartments constituted 61% of the total mortgaged properties used to collate this Index.

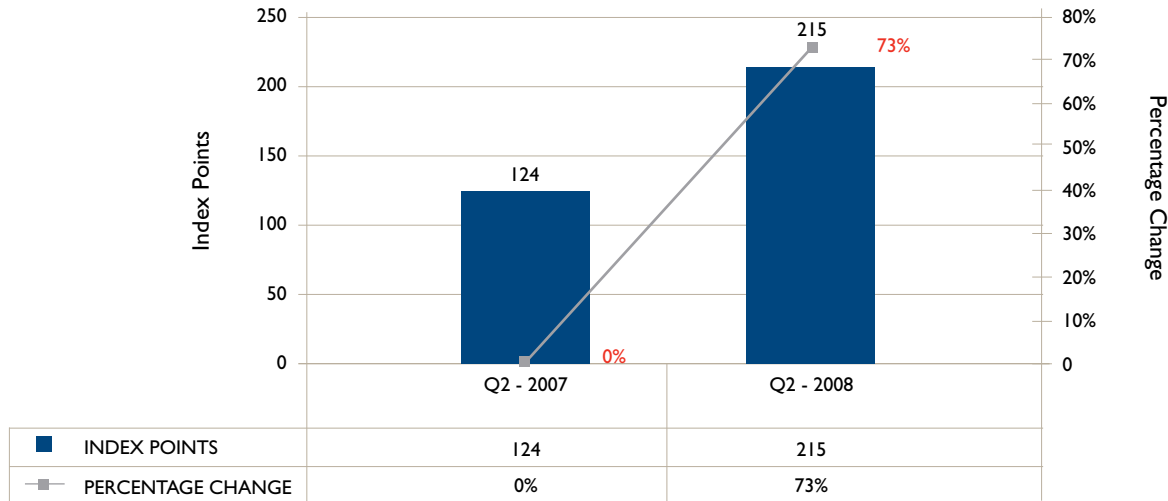
### QUARTERLY OVERALL APARTMENT INDEX



- The Quarterly Overall Apartment Index increased in Q2 2008. The growth in Q2 2008 was slower than Q1 2008. The index increased 16% to reach 211 points compared to 182 points in the previous quarter.

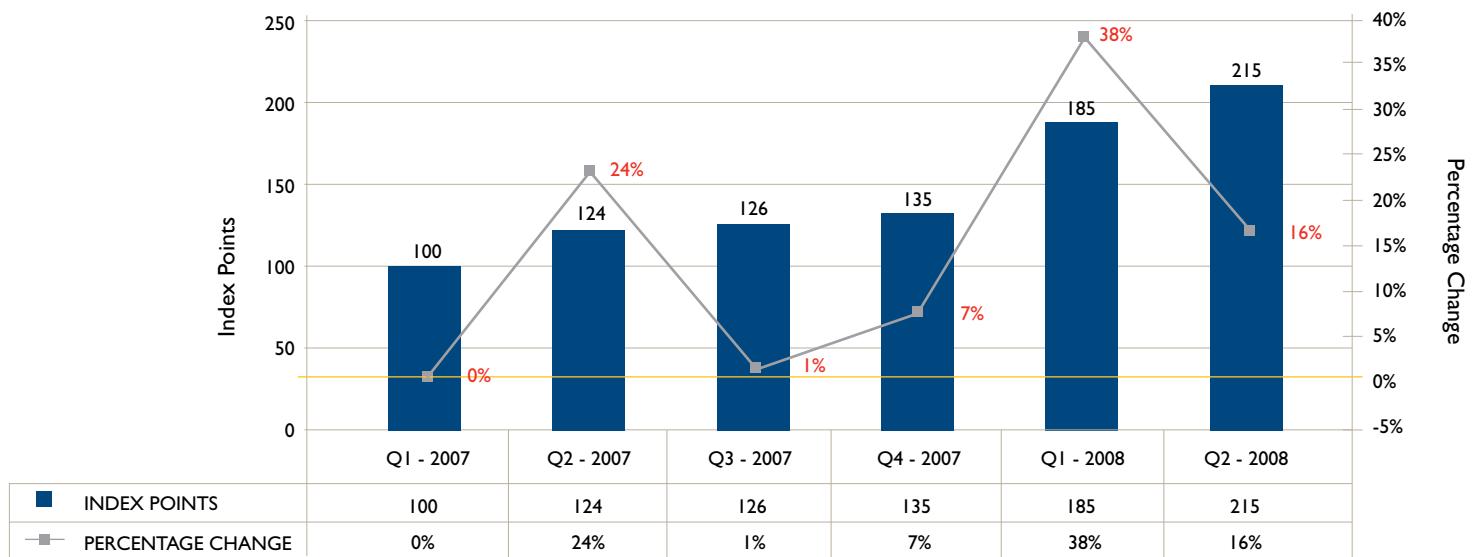
- The blended average rate per ft<sup>2</sup> for apartments in Dubai in Q2 2008 was AED 2,138 (AED 23,013 per m<sup>2</sup>).

## ANNUAL OVERALL VILLA INDEX



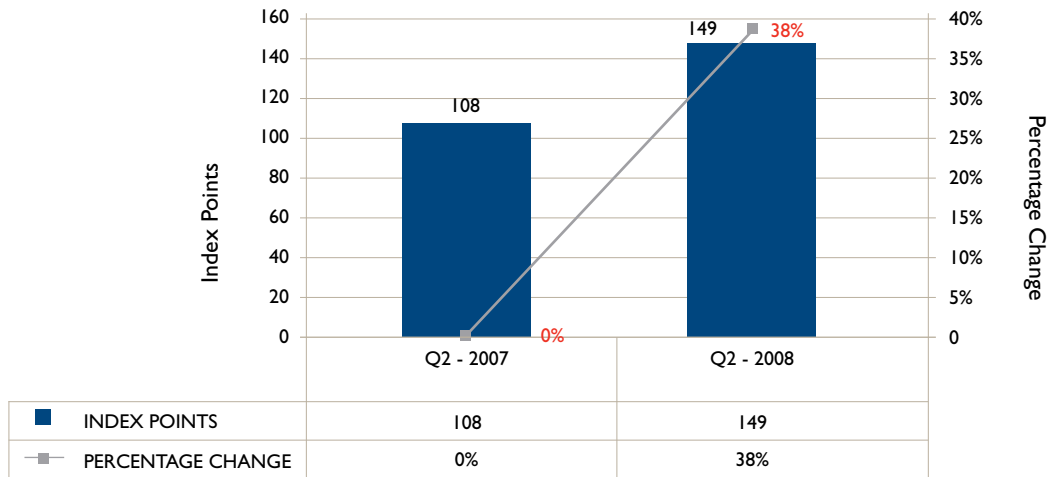
- The Annual Overall Villa Index increased by 73% in Q2 2008, compared to Q2 2007. The index increased to reach a total of 215 points.
- The scarcity of villas projects compared to other types of property and the high demand for villas was the major cause behind the increase of the Index value.
- The average blended rate per ft<sup>2</sup> for villas in Dubai in Q2 2008 was AED 1,554 (AED 16,727 per m<sup>2</sup>).
- Villas constituted 18% of the total mortgaged properties used to collate this Index.

## QUARTERLY OVERALL VILLA INDEX



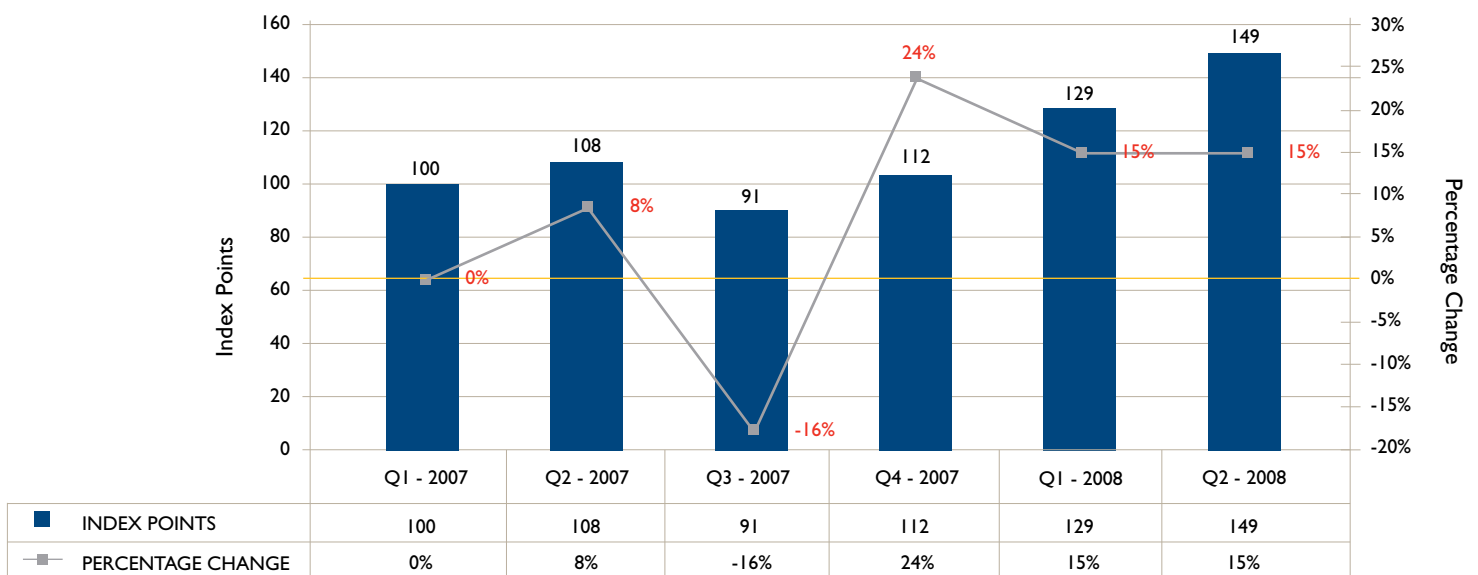
- The Quarterly Overall Villa Index increased in Q2 2008 to reach 215 points. A 16% increase compared to Q1 2008. The highest increase was in Q1 2008 with the Index increasing 38% compared to Q4 2007.
- The average blended rate per ft<sup>2</sup> for villas in Dubai in Q2 2008 was AED 1,554 (AED 16,727 per m<sup>2</sup>).

## ANNUAL OVERALL TOWNHOUSE INDEX



- Price growth of townhouses during the index period remained slower than for apartments and villas. The annual Index increased from 108 points in Q2 2007 to 149 points in Q2 2008 with a 38% increase. However, demand for mortgages specifically for townhouses increased by 6% in Q2 2008.
- The average blended rate per ft<sup>2</sup> for townhouses in Dubai in Q2 2008 was AED 1,180 (AED 12,702 per m<sup>2</sup>).
- Townhouses constituted 21% of the total mortgaged properties used to collate this index.

## QUARTERLY OVERALL TOWNHOUSE INDEX



- Prices of townhouses in Q2 2008 increased at the same rate of Q1 2008. The index rose by 15% to reach 149 points compared to 129 points in Q1 2008.
- The average blended rate per ft<sup>2</sup> for townhouses in Dubai in Q2 2008 was AED 1,180 (AED 12,702 per m<sup>2</sup>).

## ABOUT THE INDEX

The Colliers International House Price Index (HPI) was established in January 2008 by Colliers International U.A.E. and five leading banks / financial institutions in the Emirate of Dubai to provide statistics specifically designed to reflect the average growth / decline rate of house prices across certain foreign ownership areas of Dubai, United Arab Emirates. The data that forms the basis of the indices presented in this HPI has been provided by all the member financial institutions and relates to properties which have been mortgaged through these member institutions. The member banks / financial institutions associated with the Colliers International House Price Index are as follows:

- HSBC Bank Middle East Limited
- Barclays Bank PLC
- Amlak Finance PJSC
- Dubai Islamic Bank PJSC
- Emirates NBD

We have used the weighted average method to construct the Overall Index. Based on our coverage of 14 developments in Dubai, weighting has been apportioned on the basis of unit type (Apartment, Villa or Townhouse). Apartments, Villas and Townhouses have been weighted at 55%, 34% and 11% respectively in order to provide an accurate representation of market trends.

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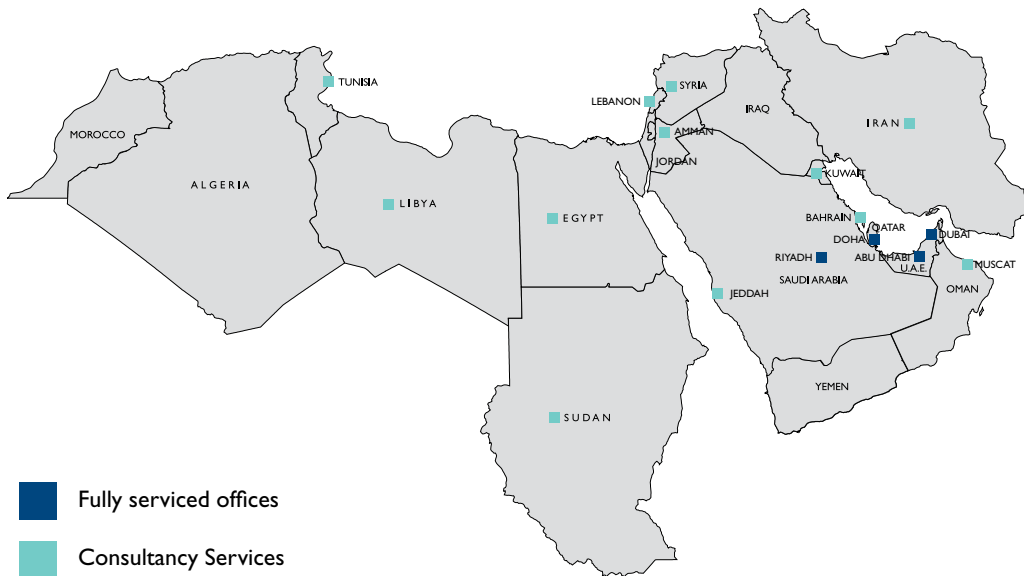
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This index overview is extracted from a comprehensive Dubai House Price Index available to subscriber banks and developers from Colliers International U.A.E.

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OVER 290 OFFICES  
 MORE THAN 60 COUNTRIES  
 6 CONTINENTS

US\$2.0bn in revenues  
 868 million ft<sup>2</sup> under management  
 Over 11,000 Professionals

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