

Will Dubai real estate become like Singapore or KL?

A festive season in Singapore and Kuala Lumpur provided some interesting food for thought about the future of Dubai property. Is the Dubai model heading towards the higher property values of the business hub Singapore, or the more modest market of the Malaysian capital?

Driving into Singapore the most impressive thing about construction activity is that there is none, or at least not beyond one office tower due for completion in 2010. Property yields are currently so low it is not economic to build new real estate, but prices remain stubbornly high in the city-state.

Take a typical downtown apartment: a 1,000 sqft apartment will cost around \$1m and can be rented for say \$36,000 per annum, giving a rental yield of 3.6%. When you consider what US Treasuries pay these days, it is not surprising that real estate construction has virtually halted.

The situation in Dubai is the complete reverse. Buy yourself a 1,000 sqft apartment in The Greens and you will pay around \$270,000, and the same apartment will rent for \$22,000, giving a rental yield of 8.1%.



Dubai like Singapore

Yet Dubai and Singapore have many similarities. Both have massive ports serving a huge hinterland, both have highly developed tourism sectors and both are strong on business services and finance. GDP per capita is also not much different either, although Dubai's GDP growth of 16% in 2005 was three times higher than in Singapore.

So should real estate in Dubai be selling for less than one-third of comparable prices in Singapore? And should landlords in Dubai be getting twice the return on their money as in Singapore?

The answer is that Singapore is an older, more mature market than Dubai, with clear property laws and a highly developed mortgage market. There are also obviously the short-term worries about imminent oversupply of property in Dubai.

But if you want to understand where Dubai property will be in 10 years time then Singapore is probably a suitable model to follow. Do not forget that Singapore too went through its building booms and busts, and yet property owners that stuck it through have come out on top.

KL versus Dubai

Or will Dubai be more like Kuala Lumpur, the capital of Malaysia, and the nearest large city to Singapore? In Kuala Lumpur, much more property development activity is in evidence than in the Lion city, but construction output has been falling for several years.

Real estate prices are also low by comparison to Singapore. You can pick-up a brand new 3,000 sqft town house in a reasonable area of Kuala Lumpur for under \$150,000. These are more like the price levels that Dubai started with when the freehold property market was born a few years ago.

But is KL to be compared to Dubai? It is a national rather than a regional trading hub, and is more a Government city like Abu Dhabi than Dubai. Salary levels are also much lower.

The message really is that business hub cities tend to support higher levels of real estate prices in the long-term. They have a higher concentration of people earning big salaries and that drives property prices and rents higher.

So that would suggest that Dubai will become another Singapore rather than another KL, but the path towards that objective will almost certainly not be without the ups and downs that are an inescapable fact of life for any property market.