



AN EMPIRICAL ANALYSIS OF THE IMPACT OF MACRO ECONOMIC VARIABLES ON DUBAI HOUSING MARKET FLUCTUATIONS

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ABSTRACT

The aim of this paper is to identify the major Macroeconomic factors that influences the housing market prices in Dubai. This paper tries to give a summary of a summary of the residential market activity and highlights price movement, rent and yield statistics, residential transactions and upcoming supply conditions in both the countries. This paper attempts to analyse how far the macro environment viz, the GDP growth(annual %) Inflation, GDP deflator (annual %) Merchandise trade (% of GDP) Merchandise trade (% of GDP) Foreign direct investment, net inflows (BoP, current US\$) affects the sales price. A statistical analysis of the impact of these variables and a theoretical explanation on housing prices have been given. Multiple Regression and trend analysis have been used and the results show that there is a positive and direct impact of all these Macro variables on housing prices.

KEYWORDS :

1. INTRODUCTION

Real estate economics is the application of economic techniques to real estate markets, which tries to describe, explain, and predict patterns of prices, supply, and demand. The closely related field of housing economics is narrower in scope, concentrating on residential real estate markets, while the research of real estate trends focuses on the business and structural changes affecting the industry. Both draw on partial equilibrium analysis (supply and demand), urban economics, spatial economics, extensive research, surveys, and finance

A real estate market analysis provides key information needed for analyzing the valuation and financial feasibility of any real estate investment. Defining the area is more than just finding the lot boundaries but involves defining the size of the target market most likely to generate income. Accurately defining the target market and neighborhood allows the investor to identify competition and the current supply to meet current demand in that area.

The second section contains a thorough analysis of the physical and environmental factors impacting the real estate. Physical factors include things like location, natural resources, topography, soil conditions, climate, water availability, and transportation patterns. At first glance, some of these factors may not seem terribly important to analyzing the profitability of a real estate investment. In some cases, however, the community's location next to an ocean or pleasant climate could be an integral part of the community's economy, industry, and desirability. It would be impossible to fully understand the community dynamics without an appreciation of these physical characteristics.

In addition to these physical factors, the market analysis may also include more information about the neighborhood features. Often, this includes detailed information about the neighborhood's access to public goods and services. The access to and quality of public utilities can be extremely important to commercial real estate development. Real estate developers must consider whether or not a particular parcel of land has sufficient access to utilities as well as whether those utilities are capable of meeting the additional servicing demands of the new development. If not, the developer must convince the local government to invest in upgraded utility services to the area. So, the availability of adequate utility services and construction costs should not be overlooked since they can ultimately determine the feasibility of any real estate project.

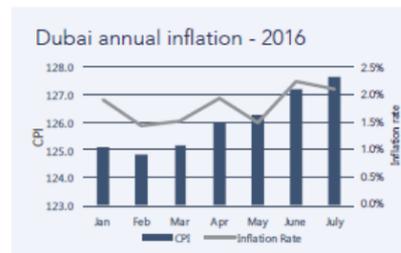
After addressing the physical factors of the location, the market analysis evaluates the economic characteristics and trends in the area. The purpose of this economic analysis is to provide an understanding of the underlying population, business conditions, and the future demand for a particular type of real estate. Trends in demographic data provide some insight into the future economic health of a region. For example, a growing population is generally a good sign of economic prosperity in a region as long as there are growing job opportunities for the residents. Population age distribution, education, and income are also important indicators of regional growth patterns.

Broader economic trends in the region as well as at the national level should also be addressed in the market analysis. Although all real estate is local, larger, macroeconomic forces have ripples throughout all local markets. As a result, interest rates, current and proposed changes to tax policies, inflation, GDP growth, and unemployment rates need to be analyzed in a market analysis. All of these factors play an important role in the growth or decline of the economic base surrounding the subject property. The following variables have been used in this paper to analyse the trend.

- GDP Growth (%)
- Population
- Inflation
- Merchandise Trade, and
- FDI

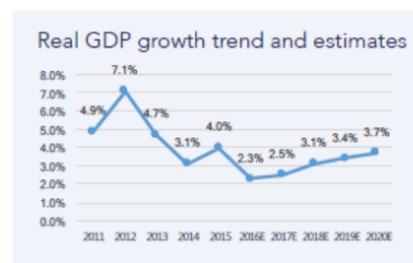
The broad economic trends often named as Macro economic variables which has a direct impact on the land prices and housing market scenario. The Macro economic variables are GDP, Exports and Imports, Inflation, International laws and policies, Demography, so on and so forth This paper tries to analyse the effect of these variables on the Real estate housing market in British Columbia and Dubai.

The Dubai Residential Market Report - Q4 2016 gives a glimpse of the movement of the macro economic variables in the recent years. The data shows the periodical movements of these variables and the paper attempts to relate and find out the influence of each variable on housing market.

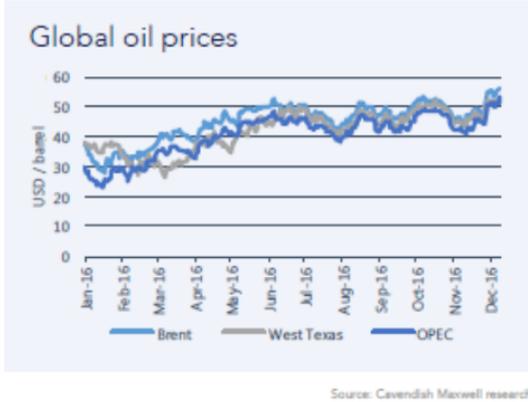


*2014=100

Source: Dubai Statistics Centre



Source: IMF, National Bureau of Statistics, Statistics Centre Abu Dhabi, Dubai Department of Economic Development



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2. OBJECTIVES OF THE STUDY

The main objective of the study is to analyse the Macro economic impact on housing market. To study this objective in detail the following research questions have been raised.

- a. What are the variables affect housing market in general
- b. What are the variables affect the housing market in UAE and British Columbia
- c. How these variables does affect the decision making of the households in these countries?

3. Data Analysis Results and Conclusion

The secondary data have been collected from the official websites of these two countries and World Bank. The following model is used to for analysis

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + U \dots \dots \dots (1)$$

The variables are

- X₁=GDP Growth (%)
- X₂= Inflation, GDP deflator (annual %)
- X₃=Inflation
- X₄=Merchandise Trade
- X₅=FDI
- U= Disturbance Term

The basic Regression Analysis is used to analyse the impact of these variables and the following results have been drawn.

Multiple regression has been applied and the results are given as follows

Variables	P-value
GDP growth (annual %)	0.001849
Inflation, GDP deflator (annual %)	0.006825
Merchandise trade (% of GDP)	0.004582
Foreign direct investment, net inflows (BoP, current US\$)	0.001489

The results show that there is a significant relationship between these Macro economic variables on Housing market. As indicted in the Residential market review Real estate markets operate in cycles and the market in Dubai is no different. Recent pressures in the Dubai residential real estate sector have prompted increasing discussion amongst investors in the region, with some raising concern that the sector may experience significant price adjustments. While adjustments should be expected in any market, there are a number of factors which suggest any corrections are likely to be less severe than those experienced in 2008. While the oil price remains well below the long term average, which is clearly having an effect on market confidence, the improved regulatory environment, the broader investor profile and the increased maturity of the market are all indicators that the real estate market should eventually self-correct.