

Buyers' trust key to recovery of off-plan sales

Improvements needed in areas like development process, defaulting buyers, legal transparency and public relations

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Off-plan property sales in Dubai can recover only if buyers restart trusting developers and the regulatory framework. (FILE)

Off-plan property sales in Dubai can recover only if buyers restart trusting developers and the regulatory framework, according to a new report.

The emirate also needs to launch a good public relations programme to communicate how all stakeholders have been protected, Isthmus Partners said in its report.

The Dubai-based consultancy said developers must also start by taking stock of all the stakeholders in each project and decide whether they are the best people to take the project forward.

"If the right people are not available, they need to be hired and if the wrong people are involved, they need to be replaced. Developers are left with some stakeholders, such as lenders and buyers, so they will have to involve them in the process early," it said.

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Besides, developers need to come up with a financial model, which they are prepared to share with all stakeholders.

The off-plan market in Dubai came to a standstill from being very active in mid-2008 following the global financial crisis, with buyers' trust in developers eroding and developers reneging on their commitments.

"Being coy about a development at this moment, hoping prices will come back, is just burying your head in the sand. Things will look the same when you come up for air," Sukhdev Hansra, Partner, Isthmus, wrote in the report.

The financial model needs to take into account sunk costs, future costs and liabilities and forecast cash inflows from current payment plans and future sales. The risk of each component of the cash flow needs to be determined through detailed sensitivity and scenario analysis.

"From this model, a strategy needs to be put into place. It may be that there is no money to be made once the analysis is complete, but so be it. Then the stakeholders at least have a base line from which to understand what to do next and have real data on which to base decisions. On the other hand, it may be the information buyers require to have confidence enough to continue to make payments and will certainly provide some much needed transparency to all stakeholders," the report added.

Moreover, lenders must realise they are in developments until the end or write-off or sell their loans. They have a difficult position in that foreclosing on developers will not necessarily ensure they are repaid and doing nothing makes life uncomfortable. To ensure lenders have a seat at the table, they must come with a view that they may not see a repayment of full principal.

"Making loans is a risky business and when things don't go well write-downs are inevitable. In addition, lenders must ensure they are not hindrances to the process. Many lenders are also the escrow bank for a development, so when legitimate payments must be paid from the escrow account, the bank should not delay payments using the pretext of altered processes or incomplete paperwork. Delaying payments will inevitably only delay projects and adds to general mistrust," Isthmus report said.

However, lenders will have to remain involved until the end of the construction process and distributions of cash flows.

According to Isthmus, the regulatory bodies can have a big impact on all the stakeholders to ensure the above processes are carried out. It is not fair to force private entities to the negotiating table without cause; however, if a number of buyers are continually complaining about a particular developer's reluctance to move forward this provides a legitimate cause.

As a part of forcing developers to the negotiating table, developers must be encouraged to show some financial transparency. If a developer is purely smoke and mirrors, they must be weeded out; though a lot of that has probably happened over the past couple of years.

The Real Estate Regulatory Agency has started to perform some audits and has provided information about projects online, which is an encouraging sign, the report added.

The consultancy believes improvements can be made on areas such as how the development process is handled, defaulting buyers, legal transparency and public relations. More expedient rulings will help the market move forward more rapidly.

"A good public relations programme is required to communicate how Dubai has changed and the steps taken to consider all stakeholders. There will always be some disgruntled stakeholders, but the overall improvements should be highlighted. Without the implementation of at least some of the above proposals, we feel customers are unlikely to have confidence in Dubai to buy off-plan. The longer it takes to clean up current transactions, the longer it will be before new buyers will venture forward," the report added.