Dubai's first freehold residential projects such as the Meadows and Arabian Ranches are now well established communities. The gardens and common areas are completed and plant life is maturing. Many of the residents are those that first purchased direct from the developer, having initially moved to what was, in part, a building site they are now enjoying the facilities surrounding them.

The Dubai property market continues to evolve from the initial stages where purchases were all off-plan and the buyers were largely speculators to today where there are a greater number of secondary market transactions and speculators have been replaced by end users and long term investors. We are also now at a point where the initial purchasers of many of Dubai's first projects are upgrading, downsizing or releasing equity from their properties. All signs of a maturing market.

Those that purchased villas in 2003 and early 2004 have seen price increases of in excess of 100% from the original cost. In anyone's books this is an impressive rate of growth. This sort of capital appreciation represents for most a significant boost to their worldly wealth and understandably it starts the 'grey matter' working. Whilst you don't physically have the money in your pockets it does raise the question what we should do to best utilize this capital.

The decision of what to do with the equity is usually led by personal circumstances. What is right for one is certainly not the answer for all. However, we should bear in mind that many of those who bought into the very first freehold properties probably have an element of the risk taker mentally in them. At the time of buying there was no written law and little or no proven track record from the developers. To a large percentage of Dubai's expatriate population these were too many uncertainties. So having made a successful and profitable decision once, it is perhaps all the more tempting to try the hand at a little more speculation, albeit calculated.

It is worth looking at a real example of someone who bought a 5 bedroom detached villa in Saheel off plan from Emaar in early 2004, one would have paid in the region of AED 1,700,000. In today's market you would be lucky to find a 2 bedroom town-house in Gazelle for that price. The Saheel property would sell for in excess of AED 3,500,000 today. This represents a profit of 106%, £265,000 in Sterling terms.

One option is to sell and downsize using your equity to buy the new property and for you to live mortgage free. Whilst this is an excellent idea in principal, someone living in a 5 bedroom detached property is unlikely to move to a 2 or 3 bedroom townhouse, unless they have had a significant change in circumstances.

Equity release is becoming increasingly popular and there are some excellent deals available from the likes of Lloyds TSB and HSBC. Rather than flit the new found money away on a month in Burj Al Arab or treating yourself to a new Ferrari, you could opt to invest the money in a further investment property. Rental yields on property in Dubai are still fairly attractive and a careful choice of property could mean that your additional mortgage payments are entirely covered by your rental income.

It is worth noting that this strategy of taking an equity release and investing the proceeds does come with its risks. Should your investment property remain untenanted or the rent not meet your mortgage payments then you will need to dip into your own income or savings to meet the requirements. Rental rates from residential property would only just cover most mortgage payments and this does not allow for paying for the upkeep of the property. Buying a commercial property as the investment property could be a real alternative. Rental yields on office space in Dubai are easily in double digits and based on recent reports of there being a 99% occupancy rate the risks appear minimal. Various studies of the market predict that demand for office space will continue. Offices tend to come with less upkeep expenses and in time we believe that longer term leases will be signed offering the landlord greater peace of mind about income security.

The final option is one that more and more people are considering and that is selling their existing property, buying off-plan again and living in rented accommodation pending completion of the new home. We have several instances of home owners taking this course of action, most recently changing from Arabian Ranches to Victory Heights in Dubai Sports City. Without doubt the shortage of completed villas is adding to the price of existing property however the question is whether that ‘premium’ is worth paying just to have the place ready to move in to. Going back to our figures:

5 bedroom villa, Saheel, Arabian Ranches:	AED 3,500,000 +
Same property with golf course view:	AED 4,500,000 +
Equivalent size property at Victory Heights with golf course view:	AED 3,500,000

There is an AED 1,000,000 difference in buying a completed golf course view villa rather one where you have to wait 18 months for completion. Of course there are other considerations. You have to pay rent for 18 months; a 5 bedroom Saheel would cost you about AED 330,000 for this period. Dubai Sports City will not be finished for about 4 years so you would also be back amongst the construction. Perhaps these are small consequences when looking at an AED 670,000 price difference.

Of course there are many owner occupiers that are happy with their circumstances and who are not looking to make any changes. For those that are interested in exploring their options, a good real estate agent will take time to help you understand opportunities available and advise you accordingly.

Sep/ Oct 2006