

Commercial cream on the top

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Helen Tatham
and Pauline Leale

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If we consider the case for the investor, a number of reasons for this heightened interest in commercial real estate come to mind. Residential property prices in Dubai have risen by

considerable percentages, especially for those investing in the initial projects launched to expatriates on the freehold market. It is not uncommon to hear of investors having made well over 100 per cent on their capital. Those initial purchasers now renting completed apartments and villas are in some cases achieving rental yields of 10 per cent or more. That said, later purchasers are typically experiencing returns of 6 to 8 per cent on long term rentals. By international standards and in comparison to bank interest rates, this is still a healthy return; however investors will always search for the maximum return on capital.

It has been reported that Dubai will need in the region 1.8 million square metres of new commercial premises by 2020. This appears to be in line with current predictions as to the amount that will finally be available over the next 6 years. With this level of demand we can start to understand one of the reasons for interest in this market. Investing in commercial property is without doubt a different prospect to residential property, however that unfamiliarity should not deter the potential investor. Commercial property tends to be let for longer periods, with a business wanting to set down roots for a number of years. This is largely due to the set up costs incurred by any company when relocating and also the need to establish familiarity of location for their clients. As with residential property in Dubai, the current set up is that tenants will be required to pay rent one year in advance.

Similar to residential property, prices of commercial property can vary greatly dependent on various key factors. These should be taken into consideration when discussing the opportunities with your property agent. Location is



the key to many businesses and the proximity to support or complimentary services. Facilities also differ from one project to another; some are sold ready to move in with the latest technology and fitted out to a high standard, whereas others will simply be handed over as a shell. Prices currently range from AED700 per square foot in Jumeriah Lake Towers, to over AED2,000 per square foot in DIFC.

New projects such as Omniyat's, One Business Bay and Al Fajer Properties' four office towers in Jumeriah Lake Towers, almost completely sold out within days of launch. This is somewhat reminiscent of the speed that we experienced in sales of residential property in 2004 and early 2005. It is hard to predict if commercial property prices will follow the huge increases shown in the early days of the residential property market. This was largely driven by speculators buying units to immediately resell at a typical premium of 10%. To date we seem to be experiencing a strategy that is much more akin to 'buy and hold' rather than flip. This could be for a number of reasons. Either companies are snapping up properties for their own use or investors are attracted by the high rental yields offered from commercial property. We believe that it is more the latter. Property funds are now entering the market and these funds typically hold large percentages of their portfolio in commercial property for longer periods of time. This will also hold a considerable amount of units back from the resale market.

What of the potential rental incomes? It is probably best to consider a couple of examples to understand the financial side of this equation. Take ETA Star's Al Manara Tower in Business Bay for example:

Purchase	Rental
8th Floor office	AED 200 per square foot (assumed)
1,894 square foot	AED 378,800 total rent
AED 1,450 per square foot	13.8% Rental yield
AED 2,746,732 total cost	

By way of comparison the figures for a similar office in Galadari's I & M Tower in City of Arabia are:

Purchase	Rental
8th Floor office	AED 150 per square foot (assumed)
1,710 square foot	AED 256,500 total rent
AED 758 per square foot	19.8% Rental yield
AED 1,296,180 total cost	

Consideration needs to be given to the level of rent that can be charged in different areas of Dubai and whilst location will be a key component for most businesses, it is difficult to predict exactly how this will affect prices. With the above figures in mind we can start to see, that with rental yields double that of residential property, why investors are now investing in commercial units.

Not dissimilar to residential property, historically Dubai's commercial units have all been owned by local landlords. These landlords usually own large portfolios of property and have dedicated management offices to take care of their responsibilities and tenants. It will be an interesting difference moving forward, with many more, smaller private foreign landlords in the market. Property managers have historically concentrated on the residential market, however we do see a need for their professional services with commercial units.

With scores of new businesses coming to Dubai's shores on a weekly basis, we see excellent potential growth from commercial property. Teamed with the potential rental yields, our prediction is a continued interest in this market for the remainder of 2006. Before each and every investor rushes out to snap up the last units currently available in Dubai's new commercial projects, we would recommend speaking with a professional adviser. Diversity is important in any investment strategy and minimizes risk of over exposure to any particular sector. Residential property does still offer good growth and income potential, and should not be ignored when reviewing the opportunities in Dubai's booming property market.



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