

Keeping the pace



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Pauline Leale and Helen Tatham look at how developers and investors alike are adapting to keep up with changes in the shifting Dubai property market.

The days are gone when each and every off-plan development launch resulted in huge queues of hungry would-be investors waiting to secure any unit possible. The number of projects being launched has not let up. With an estimated 750,000 new units under construction, the job of the developer and their appointed sales agents has evolved into a real need to examine the market and devise a strategy superior to that of the competition.

There are numerous factors responsible for the apparent slowed sales rate of off-plan properties, and probably as many tactics being adopted to make sure that any particular project is not one that suffers.

Market growth

The phenomenal growth in the Dubai property market since 2002 has been well reported in the local and international press. Property prices in some projects have doubled and many investors and home owners are now sat on considerable profits.

When any asset, whether it is equities, precious metals or property increases at this kind of rate it is unavoidable that fears of a decline will set in. That said, rental yields remain high by international standards, at seven to eight per cent, and with the population expected to reach 2.2 million by 2010, concerns over the bubble bursting are likely to be unfounded. We are already seeing regular reports in the media from developers, agents and government that highlight numerous reasons why Dubai's incredible growth story is anything but finished.

The future growth prospects of any project in Dubai are decided by a number of factors. These should be taken into consideration when looking through the minefield of off-plan properties in order to make an informed decision.

Financing

With such growth in property prices, some investors are now finding that, whilst they are attracted to the possibility of buying property in Dubai, the availability of local financing is an essential factor.

As not all developers have secured financing for buyers through the banks, this is a serious consideration for potential buyers from two stand points. There are those investors who have insufficient capital and need to finance a percentage of their purchase. Even savvy investors who do not require financing are taking the availability of mortgages into account, as this offers them a wider potential market when they come to sell. We are seeing developers placing more importance on this aspect of their strategy, and in some cases even 'non-status' mortgages are being offered to entice prospective purchasers.

Location

Dubai continues to spread its borders with endless new developments coming up from the sand where the city once ended. Whilst this does offer the investor a greater amount of choice, there is often a danger of too much choice, which leads to confusion over where to buy.

The key for investors is to consider why they are buying: someone wanting to live and work in Dubai will have different considerations to those looking for a holiday home or pure investment. Developers and agents alike are therefore looking at their target market more carefully than they had done before.

Even as recently as two or three years ago, one could easily travel from one end of Dubai to the other with relative ease. As the traffic congestion appears to worsen on an almost daily basis, the availability and proximity of facilities and amenities, has become much more important. The Arabian Ranches is a perfect example of this, where residents have access to a school, supermarket, bank, pharmacy, restaurants, book shop, travel agent and golf club. There is no doubt that this self contained community

set-up has added to the huge popularity of these villas.

Rentability

There continues to be a good amount of interest from overseas investors who are often attracted by the high rental yields talked about by developers. Long term rental income continues to be at seven to eight per cent, particularly on villas and apartments in the more popular developments. Whilst the availability of ready property fails to meet the demand from prospective tenants, most properties are let within a few days of going onto the market, as long as they are sensibly priced.

Buying off-plan now requires a certain amount of vision as to the rentability of your property, as the ever face of Dubai continues to evolve.

A relatively new angle on the market is those investors looking to let their properties on a short-term basis. This is a particularly popular approach taken by overseas investors who have bought property as a holiday home. Already popular in Europe and in America, the owner is able to still use the property when they want, whilst receiving a rental income.

Renting a property on a short-term basis does offer the potential of rental returns two to three times that of a long term rental contract, as long as occupancy levels are sufficient. Short-term letting is not without its complications, requiring the investor to furnish, landscape and pay for utilities. Short-term rental is also not only popular with tourists, but increasingly so with those relocating to the region and business people.

Careful consideration therefore needs not only to be given to where you are buying, but to the type of property and the market segment you would like to aim for.

Development promotion

The branding of projects and making sure that the look and feel of a property is right for the target market is

becoming big business. With properties costing millions of dollars to construct, getting the marketing wrong can be a costly mistake.

There is no doubt that developers are starting to take notice of the need to change the way in which they market their projects. Recent examples of this are buildings that are being marketed with rental guarantees. These guarantees are typically eight per cent per annum for the first three years, with a percentage of the rental income thereafter. Recognising the interest from overseas holiday home owners, these properties are often sold with the ability to use the property yourself for a certain number of days each year.

Other considerations now being taken into account when launching a new project, are the quality of the finishing and payment plans. These are points that are being learned from experience. People do get things wrong, and the important thing for Dubai is that they learn from it. The recent press about the Jumeirah Islands handover problems and disappointed customers has served as a warning to others that they need to get things right.

Huge investment is being made by the government and various developers in the region to ensure that Dubai and its many opportunities continue to be a main topic of conversation. By way of example, Dubailand is set to be the single most visited tourist attraction in the world, with 200,000 visitors expected every day. This unbelievable entertainment and residential development has caught the imagination of many.

With the spotlight remaining firmly on Dubai and its groundbreaking growth, there are undoubtedly attractive property investment options for investors.



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