



Commercial

World

Venturing into commercial real estate



Helen Tatham
and Pauline Leale

Pauline Leale and Helen Tatham take a look at opportunities for businesses and investors in Dubai's oversubscribed commercial real estate market.

In our previous articles we explored the many aspects and issues relating to the local residential property market. This focus and our commentary have largely been a reflection of the market and factors facing investors at any one time. No doubt, Dubai's residential market continues to thrive, and with careful research and good advice there are still excellent opportunities for growth and rental yield. That said, up until recently the potential offered by the local commercial property market has been ignored by many investors and businesses with regional representation.

A far cry from oversupply

In years past there was an oversupply of commercial properties, however with 17.6 per cent economic growth and 20 new companies setting up in Dubai every day last year, the situation has drastically changed. Local real estate agents are reporting 100 per cent occupancy in their commercial properties and landlords have been quick to raise rents in response to the overwhelming demand. Businesses looking to expand their presence and prosper in Dubai are feeling the brunt of these increases, with rents of AED200 to AED300 per square foot along Sheikh Zayed

Road and reaching AED500 per square foot in the new Dubai Marina. It is fair to say that many businesses will simply not be able to continue to operate from Dubai if alternatives are not considered.

Anyone looking at the multitude of tower cranes dotting the Dubai skyline could be forgiven for thinking that there was more than sufficient commercial space under construction. In fact, for the Dubai commercial property market to meet the demands for space, it has been estimated that it will need some 1.8 million square meters of new premises by 2020. Currently reports state that only 20 per cent of the present construction is aimed at providing office space. This clearly demonstrates that if trends continue, it will be several years before supply exceeds demand.

Considerations for businesses in Dubai

With the unabated increase in current commercial rental prices, many businesses are considering the opportunity to purchase an office, rather than continuing to have a large percentage of their bottom line profits allocated toward the provision of premises. As with residential property, price is dictated by a number of factors, which should of course be considered carefully by any business.

Accessibility

The location of commercial premises is often paramount when looking at the alternatives. Over recent years this has become much more of an issue, as the city continues its staggering expansion and the infrastructure and authorities struggle to keep Dubai moving. The zoning approach taken with regard to the free zones within the master plan of Dubai will no doubt aid businesses whose operational make up fits into one of these bespoke areas. For those who trade with the general public, location and accessibility continue to be at the forefront of their minds.

Location

There are various possibilities for purchasing 'freehold' office space throughout Dubai, and as already seen in the residential market, prices per square foot can vary greatly. An office in Jumeirah Lake Towers could set you back AED560 per square foot, whereas the same space in the DIFC would be in the region of AED2,200 per square foot. One must, however, remember that as in any major city, businesses likely to be operating right in the nucleus of the

central business district will be those who require such a key location and directly benefit from doing so.

Facilities

Generally, most commercial space for sale in Dubai will be handed over as a shell for the new owner to fit out to suit their own company's requirements. Many buildings will either provide, or be located within close proximity of, all manner of leisure facilities, designed to help make the office a much more pleasant location in which to work. These facilities are likely to include gyms, restaurants, shops, supermarkets and much more.

Adding diversity to a property portfolio

The figures don't always speak for themselves, but with such overwhelming growth and the continued vision to expand the borders of Dubai, attracting more foreign businesses - and with it huge increases in population - there is no doubt a need for quality commercial space. Current reports and our own experiences suggest that there is a drastic undersupply of office space for businesses currently operating in Dubai, and this is unlikely to change for some time. So it is inevitable that investors will be attracted to the potential.

Rental yields are being quoted in the region of 18 per cent, which is in itself attractive to investors when residential property is giving around eight per cent and bank interest rates remain much lower. The market also presents good growth potential, as a simple look at supply and demand would tell you.

Buying commercial property as an investment is, however, an altogether different scenario to investing in residential property. Ask any property fund manager and they will tell you that commercial property is typically a much less volatile investment. Tenants tend to stay in the premises for a number of years, signing lease agreements up to five years. Dependent on the lease agreement put in place, you may then be forced to hold on to your investment with tenant in situ, unless you are able to sell the property as a going concern.

New developments are literally rising from the sand, on what is now a familiarly regular basis. Projects such as Business Bay, which is touted to be "the regions business capital," will cover a mammoth 64 million square feet of land, but are not due to be completed for a number of years. Releases within these developments are eagerly anticipated and if current market conditions continue, it is expected that many of these units will sell out very quickly. Commercial opportunities do still exist in the Jumeirah Lake Towers and DIFC for those who are looking for an earlier occupancy date.

In conclusion

There is definitely a case for both the business owner and investor to consider purchasing commercial property, and the prospects look attractive for the foreseeable future. Completion dates vary - and this is an important factor for any business looking to occupy the property soon, as well as for investors looking for an immediate return on their capital. No two sets of requirements are the same and professional advice is a must.



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Tel: +971 4 355 1484, Fax: +971 4 355 8216
P.O.Box 49042, 112 Atrium Centre, Dubai, U.A.E
Email: info@dubailuxuryhomes.com www.dubailuxuryhomes.com

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