



Red Residences at Dubai Sports City offers eight per cent rental guarantee

# Leaseback schemes

*Large numbers of overseas investors continue to choose Dubai as the place to invest in foreign property. The attraction of high levels of tax free rental income continues to be one of the popular reasons for selecting this booming town. Purchasing in a different country can be complicated, with different practices, laws and procedures. Agents dealing with international clients often spend a great deal of time explaining the peculiarities of the market before advising on suitable property options. The differences and difficulties of dealing in overseas property does not just stop at purchasing the unit, leasing can be equally as confusing and time consuming. With this in mind, a handful of developers in Dubai are offering attractive leaseback schemes, taking much of the hassle out of owning and renting property.*

With a traditional property investment, an investor will be required to source tenants, normally through an agent and manage their property or appoint a management company. For a long term rental this may not actually result in too heavy a workload, however it is widely recognized that, in order to achieve the best returns, short-term rentals should be considered. With a leaseback scheme, the property is handed back to the appointed management company, who will typically handle all leasing and management for the entire building. Their role will not only be to look after the upkeep of the property, but importantly generate the highest level of occupancy possible for the owners. These managers will often seek to sign alliances with tour operators, travel agents and businesses, in order to secure regular guests in the leaseback apartments. Their own remuneration can be connected to their actual income results, meaning that it is in their best interests to generate the highest returns possible.



By Helen Tatham and Pauline Leale

Short-term rentals are also very often popular with overseas investors who wish to generate an income from their holiday home when not in use by themselves. The terms of leaseback schemes do vary from one developer to another; however these are typically geared at this type of investor. Contracts normally allow up to 30 days own use each year, which is usually more than sufficient. The return given to the investor is simply reduced pro-rata depending on the number of days that they use the property themselves.

When choosing a property to rent, one would typically need to give a great deal of consideration to its layout and views. This is not necessarily so important when purchasing

Dubai Marina



into a leaseback scheme. Whilst some units are likely to have higher occupancy levels than others all investors will receive the same percentage level of income.

The reason for this is straight forward, income from a building which is being managed on a leaseback scheme is typically pooled and then divided equally. The division is calculated based on the percentage of the total square footage of the building that you own, or the sales price:

Studio apartment = 500 square feet  
 Total building livable area = 50,000 square feet  
 Percentage ownership = 1%

Or else the percentage of the total sales price of the building that you paid e.g.

Studio apartment = AED 300,000  
 Total sales price of all units = AED 50,000,000  
 Percentage ownership = 0.6%

Apartments sold as part of a leaseback scheme will typically come fully furnished, with everything from beds to televisions, curtains to teaspoons included. The cost of this furniture is usually included within the price of the apartment. With occupancy levels expected to be reasonably high within these buildings, the fixtures and fittings will undoubtedly suffer some wear and tear. One will normally find that a sinking fund is included as a part of the ongoing management costs of the building. This fund provides the building managers with the capital that they will require to repair and replace items, as necessary.

According to a recent report, Dubai scored a world record when its hotel establishments recorded the highest occupancy and revenues in the month of January 2007, leaving behind Hong Kong, Sydney, Tokyo and London

in occupancy levels. Dubai was far ahead of destinations like London, Paris, New York and Hong Kong in terms of revenues generated by hotels for that month. The hotel occupancy levels in January were, Dubai (85 per cent), Hong Kong (83.8 per cent), Sydney (76.6 per cent), Tokyo (73 per cent) and London (71.5 per cent). A percentage of this staggering demand for accommodation will surely continue to filter through to serviced apartments, meaning that leaseback opportunities should generate some quite healthy returns. In 2006 over ten per cent of the AED 10.8 billion in revenues from hotels and hotel apartments came from hotel apartments.

Up until recently leaseback schemes have been limited to residential property. A UK group has just launched a serviced office leaseback opportunity, which to a large extent follows the same model as the residential offering. This is a very interesting concept in answer to the well-publicised shortage of commercial space in Dubai. In 2006 an estimated 13,000 new businesses started up in Dubai and it is thought that a large percentage of these would prefer to start their first six months of operation in serviced offices. Current rental predictions for the project are healthy, with the potential to generate returns well into double digits.

We are continually researching the market and working with developers in order to bring the best opportunities to our investors. Leaseback schemes are not for everyone, but there is certainly a case for overseas investors looking for a hassle free income. Yields will depend to a large extent on the quality of the management company appointed to the building. Well known international firms have already announced that they are going to be working with developers, bringing confidence to investors and also the market, and that these professional companies recognize the potential for this market.

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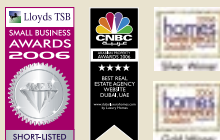
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