



Rent or buy – that is the question?

If there is one question that is asked more often than most when end users are looking at local properties, it has to be whether one should continue to rent a property, keeping savings in the bank, or indeed take the plunge and do as many have done and purchase in Dubai. For many it is a financial decision more than anything else. The primary questions have to be whether purchasing is affordable and if more money will be made taking one course of action over the other. Those of us that come from countries where buying is the norm and almost expected of you when you reach adulthood, tend to consider rent 'dead money' and hate the concept of paying someone else to live in their property.

I have used a real life case of a newly arrived family to Dubai and I have made some basic calculations in order to establish whether there is an argument for renting instead of buying. I have also considered the case of buying a property under construction over one that is already completed. There are obviously variations on this and we would encourage those looking at their alternatives to speak with a professional property advisor. The considerations however will often be very similar when trying to make an informed decision. In each scenario I have made my calculations based on a five year plan.

Renting

The family currently live in a three bedroom detached villa at the Arabian Ranches. Rents vary of course but a typical property such as this would currently cost in the region of AED 220,000 each year. There are many people who predict that rents will drop when the supply of completed properties increases on the market but with continual delays to most new projects this is unlikely to happen in the short term. We could also take into account inflation and other factors but for the sake of argument and trying not to accommodate conflicting opinions let us assume that the rent stays level for the next five years. The total rent payable over this period would be AED 1,100,000, which you'll agree is not a small amount.

We must also take into consideration here that the

family will have their savings intact if they continue to rent. The money that they may have needed to commit toward a property purchase can remain in the bank. If you are lucky and are able to secure a good rate with your bank you may be able to obtain a rate of 5 per cent per annum. Once again we have to assume no movement in interest rates, which of course is unlikely but it helps with our calculations. Compound interest over our five year time frame would increase savings of AED 1,000,000 to AED 1,276,282.



By Mark Leale

Buying a completed property

The immediately apparent alternative for anyone living in rented accommodation is often to seek the opportunity to purchase a similar property to the one in which they live. Once again I'll stress that prices do vary but we'll take an approximate value of AED 3,600,000 for a three bedroom detached property in Saheel at the Arabian Ranches. On to this we need to add commission of two per cent and a transfer fee of one per cent, payable to the Land's Department as the property has been registered with them, (one per cent transfer fee is also payable by the vendor).

If one was to take this option then paying rent would not be needed of course but savings would need to be utilized toward the fees and down-payment on the property. This would leave you with a mortgage of approximately AED 2,708,000. A mortgage of this amount taken over a 25 year period, at a rate of eight per cent would cost you in the region of AED 250,000 each year. After holding the mortgage for five years you would have repaid about AED 210,000 from the principal of your mortgage.

In summary, when compared to the option of renting, your savings would attract interest totaling AED 276,282 in the bank, compared to AED 210,000 in additional equity in the property. The total rent paid over five years

would equate to AED 1,100,000 when compared to AED 1,250,000 in mortgage repayments. So, on the face of things you would say that you are surely better to stay in rented accommodation but we have not allowed for any increase in the property value. If the property increased in price by just 5 per cent per annum then the value would have reached just short of AED 4,600,000 in five years, resulting in a profit of AED 1,000,000.

Buying a property under construction

Our third scenario is that the family buys a property that is 18 months away from completion. We could use Jumeirah Park as an example. A similar sized property to that at the Arabian Ranches is currently on our books for AED 3,050,000 net to the owner. Once again we need to add fees; two per cent commission, 1.5 per cent transfer fee and a further 1.5 per cent registration fee payable to the Lands Department once the property is completed. We also need to take into consideration that rent will need to be paid for the next 18 months and the family may also wish to give themselves a comfort buffer by renting for two years in case of unforeseen delays.

Following this example and using the available capital of AED 1,000,000 your mortgage would amount to about AED 2,642,500. Again, using the same figures as before, repayments would equate to about AED 245,000 per annum once the mortgage had been drawn down in full.

At first glance one may think this option is least favorable as you are required to pay rent and mortgage payments. It is however important to keep in mind that even allowing for a difference in popularity over location, either the Jumeirah Park villa has greater growth potential than the Arabian Ranches property or the latter has further to fall in the case of a correction.

Summary

Each option has its own benefits. The choice of renting may best suit the family who are unsure whether they will be here for the next five years and certainly would be the only option if they did not have savings to put toward a property purchase. Buying a ready property would best suit someone who does not wish to pay rent and wishes to settle into their own home quickly. The third option may be most appropriate for the home buyer who is happy renting for a while and who recognizes the benefits of buying a property but is a little nervous about property prices.

One additional point that is important to note is the effect of inflation. In a country with high inflation, such as Dubai, the only real way of protecting your assets is to hold an asset that is rising in line with inflation, like property. If interest is just five per cent but inflation here is ten per cent then the value of your money in the bank is effectively falling by five per cent per annum. Add to this the fact that the relative cost of the loan will in fact fall each year, when taken in an environment where inflation is high. The reason for this is simple. It takes less and less to repay that loan in purchasing power terms as your salary will tend to rise in line with inflation, plus your asset is increasing in value.

No matter what you would choose in this particular case it all comes down to personal choice and circumstances. What is best for you is not necessarily right for your colleague. There is a lot to be said for owning your own home but this will be one of your biggest expenses and only proper analysis of your needs and requirements with a professional real estate agent and mortgage broker will help you to make the right decision.



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