



Apartments at Dubai Marina

## Adopting the right strategy



By Mark Leale

Interest in the property markets across the UAE is not letting up and new investments into the regions many impressive real estate projects continue at a quite an incredible rate. It goes without saying that most investors have made handsome capital gains, of the level that even the most accomplished investment portfolio manager would be proud. Investors' interest has largely shifted to Abu Dhabi property over the last few months, with tails of huge profits being realized in a matter of weeks, it is easy to understand why one might be tempted to dabble.

We continue to advise clients to invest with care and see our roles not only as agents but as part educators. Those looking at buying property as an investment firstly need to think through their strategy, attitude to risk, term of investment and targeted returns. Having this initial conversation with potential investors is not only an important part of the relationship between client and broker but we see this as essential in order to provide proper advice. Just because ones neighbour, colleague or relative has bought into a project it does not necessarily make this the right move. Having a proper understanding and clear idea of your strategy will help to clearly identify the opportunities that are suitable.

An initial question to ask is yourself is your motivation for buying as an investor. It could be that you are attracted by the comparatively high rental yields that can still be achieved in the UAE. If this is the case the next step is to consider how soon that income is required. Is a certain amount of income needed in order to support your needs, whether it is general living expenses or to cover the cost of borrowing? Consideration needs to be given to current rents in the area and others by way of comparison. Looking

longer term thought should also be given, as to whether rents at that level are sustainable. Although many of us like to be hugely optimistic it is important to be realistic and think about potential downturns in rents or even periods without tenants. This is particularly important if you are aiming to service mortgage repayment with your rental income.

One would struggle to find many investors who do not wish to make a capital gain on their investment but start asking about attitude to risk and some will begin to scratch their heads. Risk is a word you may find advisors shying away from, not discussed correctly and investors may unduly fear parting with their capital but not discussed at all and an investor could end up with an entirely inappropriate investment. What is important to note here is that people's opinions of risk can differ vastly. It is therefore important to quantify the investors understanding of different levels of risk. There are opportunities to suit most, whether looking for a steady investment with little foreseen volatility in price or those wishing to sail a little closer to the wind, buying property off-plan and hoping to sell part way through stage payments before their money runs dry.

A large percentage of investors are obviously keen to understand their options as far as strategies are concerned. There are presently two main schools of thought, one either invests and then exits as quickly as possible with minimal down payment or holds the investment close to completion and then sells. There are of course other strategies adopted such as holding the property until the opening of a show property (if there is one) and then releasing back on to the market.

### Buy to sell quickly

This practice is often referred to as 'flipping' and is undoubtedly the way in which many investors have made

quite so much money in such a short period of time. The general idea is to buy a property with as small down payment as possible let us say 5% and then release this back on to the market immediately with a similar level of premium, thus doubling your money. In an ideal world, for this to work effectively you would need to sell prior to the next payment, as each time you commit further capital the premium would need to increase by a similar amount in order to realize the same return in percentage terms. To make this a little more interesting, and this is where the real risk comes in, investors have been committing to purchase properties outside of their affordability, in the hope that they sell before further payments are due. This strategy was particular prevalent in the early days of the Dubai market and nowadays in Abu Dhabi. One of the main reasons for this speculative investment is that the payment plans are such that they require minimal capital commitment over the life of the construction, normally requiring just 20% to 30% stage payments, with the balance on completion.

We are very careful to advise clients about the inherent dangers of adopting such a strategy and of course, never guarantee that we can resell properties for them.

**Buy to hold**

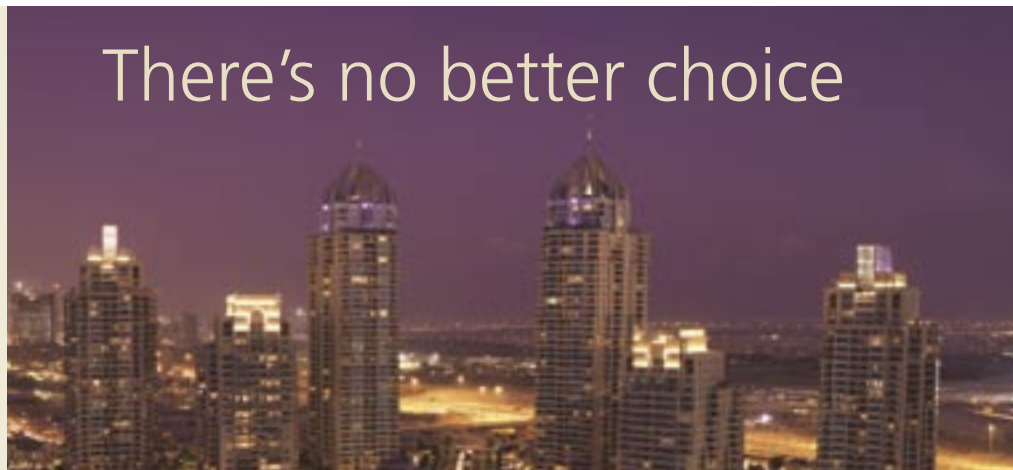
This strategy is a lot more straightforward to understand and most would see this as being a much less speculative investment approach to that detailed above. Investors have noticed that that there can often be a surge in prices leading up to the completion of a property. This can be put down to a number of factors, including the fact that there remains a definite shortage of completed properties on the market and there are also a number of people, typically end users, who prefer to see the actual property



before committing their capital.

The key here again is to sell at the right time. Property can be a relatively illiquid asset if a number of investors release their properties onto the market at the same time.

With any investment, prices can go down as well as up and property is no different. Buying properties without the means to pay for them is risky. There are some great opportunities available for investors whether off-plan or on the resale market. I stress that the advice should be given on a case by case basis and consideration needs to be given to not only market conditions but the investors' circumstances.



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