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Report
Dubai Property Rental Yield Index - Q3 2012

Market Overview:

Despite continued negative global economic news, especially from Europe, and recently, from China, Dubai's overall economy and Dubai's property market, have shown significant signs of recovery since the beginning of 2012.

Built on very strong economic fundamentals and one of the most developed and modern infrastructures in the world, Dubai's economy is expected to grow by around 4% annually in 2012 and 2013 according to government officials. Dubai is also ranked high in most economic indicators / indexes in areas like competitiveness, FDI attractiveness, speed of business set up, touristic attractiveness, income per capita, resident's prosperity and satisfaction – just to name a few. All these factors have resulted in an increased investor confidence and a return to activity in the property market.

It is worth noting that international (non-GCC) investors can only invest in freehold areas, which means that – in most cases – they can only invest in single units or full floors since most freehold projects have already been sold as units. There are very few exceptions like hotel buildings and very few full residential and office buildings. In other words, there are very few investment opportunities for large and institutional international investors.

On the other hand, we've seen some increased interest as well as actual transactions from GCC investors who are looking to buy and manage full buildings. These investors have a much larger pool to search within given that GCC investors can buy in non-freehold areas as well as freehold areas.

Therefore, and if the government wishes to attract large and institutional international investors to the property market, it might want to consider expanding the freehold areas to include areas like Al Barsha - but only allow "full Building" transactions.

The Residential Market:

The residential property market in Dubai consists of around 350,000 units with another 25,000 units expected to enter the market by the end of 2013. Most real estate reports agree that prices in prime areas have bottomed out and in some cases – such as prime villa areas - selling prices have increased by as much as 20% when compared to the same period last year. Prime residential apartments have also shown positive signs of recovery but with an overall flat growth within the residential apartments sector.

Rents in prime residential areas have also increased slightly compared to last year, with most increases happening in the first half of 2012.

Demand drivers for these positive signs include; completed infrastructures in these areas, availability of all services like schools, supermarkets, sea and water views, and most importantly, quality of finishes within these communities.

Secondary properties on the other hand, will still require some time to bottom out both in terms of selling prices as well as rental rates, mostly due to lack of demand drivers mentioned earlier.

The outlook for the residential market continues to be the same, but we expect increased investor confidence to create more and more demand resulting in higher growth rates for prime areas, and more stability in secondary areas. The region's leading developer – Emaar Properties – has already launched 2 projects this year and sold them in few hours. This has provided strong indications that off-plan developers might return to the market sometime within the next two years.

The Office Market:
Office stock currently stands at around 6 million square Meters with around 1 million square meters expected to be completed by the end of 2013. Another 1.8 million square meters of office projects are currently on hold. Most of this supply is concentrated in the Business Bay area, which is yet to have its infrastructure completed.

Although supply in the office market is significantly higher than demand, the market has demonstrated strong price elasticity in the last 12 months, which made the decline rates for selling and leasing offices much lower than expected. This price elasticity is driven by owners' resistance to sell or lease their properties below current rates. Most of the activity currently happening in the market is the result of companies re-locating to more prime areas which are now offered at more reasonable prices. As a result, prime areas are performing a lot better than secondary areas. In addition, most tenants are looking to lease smaller and fitted offices leading to better performance for such properties.

Vacancy rates vary from one area to the other but the overall average vacancy rate is above 40%, and reaching as low as 10% in Sheikh Zayed Road, and as high as 70% in developing areas like Business Bay.

Given the high inventory the additional supply expected over the coming 2 years, we expect that there will be continued pressure on prices and leasing rates for offices, especially those that fall within secondary areas.

We would like to highlight that there is a wide variance in the performance of commercial properties in different free zone areas, with some performing very poorly due low demand within their areas. This is impacting both rents and prices of such properties making them very low, especially when compared to near-by non-freehold commercial properties**.** **Therefore, our recommendation for authorities is to re-examine the need for some free zone areas and to conduct a complete re-structuring of such areas, including lifting the "free zone" label / restriction imposed on such commercial properties and allowing licenses for Dubai Economic Department (DED licenses)**

<u>Dubai's Rental Yield Index for Residential and Office Properties:</u>

While the global average rental yield rate is around 5%, most of Dubai's freehold areas offer Net Rental Yields (after deducting 20% as service charges) that are above the global average, with many areas ranging between 6-7%. Dubai International Financial Centre (DIFC) is offering the highest net rental yield at 8.9% given that sales prices have declined at a much higher rate than rental rates since the beginning of the crisis. Villas in Palm Jumeirah on the other hand, offer the lowest net rental yield at 4.4% mostly driven by the high increase in villa prices over the past 12 months. Rents have increased in Palm Jumeirah but not at the same rate as the prices.

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Dubai's Rental Yield Index (Prime Apartments - AED 800 /SQF and above)

	Prices (AED/SQF)	Rents (AED/SQF)	ROI	Net ROI
The Greens	858	80	9.32%	7.45%
Dubai Marina	1022	84	8.19%	6.55%
JBR	1015	83	8.16%	6.53%
Downtown Dubai	1270	96	7.57%	6.06%
Palm Jumeirah	1211	85	7.02%	5.61%
Business Bay	1255	92	7.34%	5.87%

Source: Sales Price and Rent Price Market Data from REIDIN.com

Dubai's Rental Yield Index (Secondary Apartments - AED 800 / SQF or less)

	Prices (AED/SQF)	Rents (AED/SQF)	ROI	Net ROI
Jumeirah Lake Towers	751	66	8.76%	7.01%
Dubai Sports City	724	52	7.12%	5.70%
Discovery Gardens	591	51	8.67%	6.94%
International City	419	35	8.35%	6.68%

Source: Sales Price and Rent Price Market Data from REIDIN.com

Dubai's Rental Yield Index (Villas)

	Prices (AED/SQF)	Rents (AED/SQF)	ROI	Net ROI
Arabian Ranches	744	60	8.13%	6.50%
The Springs and The Meadows	745	59	7.92%	6.33%
Palm Jumeirah	1411	77	5.47%	4.37%

Source: Sales Price and Rent Price Market Data from REIDIN.com

Dubai's Rental Yield Index (Residential Segments)

	Prices (AED/SQF)	Rents (AED/SQF)	ROI	Net ROI
Villa - Citywide	952	69	7.24%	5.79%
Apartments - Citywide	853	72	8.38%	6.71%
Residential - Citywide	892	70	7.86%	6.29%

Source: Sales Price and Rent Price Market Data from REIDIN.com

Dubai's Rental Yield Index (Selected office areas):

	Prices (AED/SQF)	Rents (AED/SQF)	ROI	Net ROI
Business Bay	750	65	8.6%	6.9%
DIFC	1,800	200	11.1%	8.9%
DIP	500	40	8%	6.4%
Jumeirah lake Towers	570	52	9.1%	7.2%
TECOM C	730	55	7.5%	6%

Source: Different property listing websites

Methodology:

For the purpose of this report, we used Q2 statistics to avoid and offset the seasonal effects of summer and the Holley month of Ramadan which are very slow months in Dubai. Most of the numbers used are based on “listing” prices and rates provided by REIDIN.com as well property listing portals and leading property advisory companies. In many cases, different sources provided different numbers, and we used our expert judgment to verify and present the data that we feel accurately reflect the true picture of the market, but there might still be some small variations. For the Rental Yield Index, we used a very simple formula, and assumed an average cost for maintenance fees of 20% of revenue to calculate the Net Rental Yield. It goes without saying that the index is meant as a high level directional indicator to compare between the different areas, however, each property within each area will have its own yield depending on its type, size, finishes, views and the developer.

About RichVille Real Estate:

RichVille Real Estate is a Dubai-based real estate investment advisory company offering the entire gamut of real estate advisory services including investment, development, new projects sales and marketing, selling and leasing brokerage, feasibility studies and fund advisory services.

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