



Property Ladder

WITH HAROON MAHMOOD

Do your homework on developers

Q Dear Haroon, I am looking to buy a new property. How can I tell who is a good developer?

A This is a vital question to ask yourself if you are to be sure of making a safe investment.

There are many first-time developers in Dubai who want to cash in on the property boom, which means they may not necessarily have the experience or expertise required - a potential recipe for disaster.

There are several ways in which you can protect yourself from this risk, and the simplest is to buy property which has already been completed.

If the development is ready, you can inspect the building, and see for yourself any potential issues with the professional assistance of an external advisor or surveyor.

If you are purchasing off-plan, offset risk by choosing a development where construction has begun.

Tell the developer you would like to inspect the contractor's contract. Make sure the full

works have been agreed as this will significantly increase the chances of your property being finished in the timescales promised. This, however, will not always guarantee the property's quality. Furthermore, investigate how many banks have agreed to mortgage the development.

Banks are cautious by nature, and it is a good sign if they are confident enough to offer a mortgage on a property. Finally, if no mortgage is available and construction has not yet commenced, then it is down to you to perform due diligence.

Interview the developer - ask how long they have been in

business, and if they can

provide you with copies of public accounts. Discover how your deposit

funds will be distributed - towards actual construction or into the developer's pocket? With the new escrow law you can now ask for registration details, although this is not itself a guarantee that the development will not run into problems.

Remember, it is essential to thoroughly research any company you propose to start a long-term relationship with. Use the tips here to research as many areas as possible for the best property investment.

Q Do you think that the Dubai property market is going to crash, and if so, when?

A Pricing of real estate in Dubai is driven by the forces of supply and demand, but assessing these levels can be laborious. Supply is defined as the number of developments in progress, and assessing this is difficult as many developments have not established or

announced the final number of end-units.

Forecasting demand is even more complex as Dubai is an unconventional market. Most markets consist of end-users who want to purchase property in which to live, or investors who wish to let their property.

Dubai is unique in that the market also contains people who wish to purchase a holiday home and people who are simply seeking a home for their money.

There is excess liquidity in the Gulf and many investors speculate in property without the need to rent it out. The upshot is that it is hard to tell the quantity of demand there is for Dubai property.

However, Dubai still has plenty of space for construction which will provide sufficient supply in the medium term. When supply begins to outstrip demand, prices adjust accordingly. Will this prompt a property crash? I think it is unlikely, and expect to instead

see a controlled degree of market correction with prices levelling out.

Assessing exactly when is difficult, but we do know there is a huge volume of property becoming available over the next 18 months to two years, which will inevitably affect the supply and demand equation. Long-term success is dependent on attracting the required number of end-users and investors needed to fill current developments.

Based on Dubai's track record, it is likely the city will continue to develop apace. Real estate prices are low compared to cities worldwide - hence there is still scope for price appreciation.

If or when a market correction occurs, in my opinion Dubai will remain a good place for investment in the foreseeable future.

Haroon Mahmood is the chairman of MiNC Property Enterprises. Email him at: 7days@mincproperty.ae





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WITH HAROON MAHMOOD

Handed the keys and a load of fees

Q I've just been handed the keys to my new International City apartment and been stung with a huge number of unexpected costs from the developer. What can I do?

A This is a common issue in Dubai right now, and is particularly relevant to developers and owners of International City buildings. While International City is one of the more affordable developments, buyers are being hit hard by spiralling costs. These currently include extra finance charges levied by banks when the loan is drawn down, two sets of transfer fees (one to Nakheel and one to the developer), an entire year's service charges payable up front, plus miscellaneous 'administration' charges demanded by the developer. Existing owners at International City are advised that their properties need to be registered at the land department immediately.

There is no appreciation of the fact that when these buyers bought their properties, there was no freehold law and therefore no indication of registration costs. For many International City buyers, dhs8,000 is not an affordable one-off payment, which can drag many people into debt in an already inflationary market.



Many of these fees are tantamount to bullying. We know of someone who was asked to pay dhs90,000 immediately or else face losing his property! If this is happening to you, we suggest a visit to the Real Estate Regulatory Agency, which is mandated to protect consumers' rights by regulating the fees chargeable, and how the payment of these fees is levied. We believe the waiving of land registry fees for those who bought properties before the introduction of the real estate law should be considered. In the UK, stamp duty - the equivalent of Dubai's land registry fee - is tiered according to price. At the entry level or lowest band, stamp duty is not applied, and this should be the case for International City buyers, or for buyers in other 'affordable' developments. Furthermore, a cap should be placed on finance fees, as well as on fees chargeable by the developer.

Q Which areas would you advise were particularly good for investment?

A There are some huge opportunities to make money in Dubai at the moment, but many of them are not for the faint-hearted. Although I don't normally do so, I am going to succumb to the temptation to stick my neck out and predict the winners and losers in the real estate market. But remember - prices of property can go down as well as up. Here are my recommendations:

1) Jumeirah Lake Towers: Buy anything up to around dhs1,500 per square foot. This will be a beautiful development when it's ready. Plots six months from completion are still selling at around dhs1,350 per square foot!
2) Burj Dubai and its immediate surroundings: Consider anything under dhs2,000 per square foot. The tower itself will be over dhs7,000 per square foot, and a nice apart-



NEW PLACE: But hidden charges can spoil your flat-warming party

ment next to it (or better still, overlooking it) will not remain at under a third of the price for long.
3) Discovery Gardens: Despite recent price hikes, high rental incomes will ensure price increases in this well-located development. Buy at around dhs1,000 per square foot.
4) Dubai Marina: There are major price disparities in this development. If you can get good quality below dhs1,500

per square foot, then buy.
5) And finally, Jumeirah Village South: This is going to be the next major residential and commercial area in Dubai. It has a great location and is still affordable. A good price is dhs1,100 per square foot. Happy investing!

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WITH HAROON MAHMOOD

Tougher stance taken on defaulters

Q I have defaulted on an instalment payment because I have not received some money that was owing to me. What can I do?

receive a final termination notice and forfeit your property, you are liable to lose all or a large part of your deposit and, as such, this is something you should try to avoid.

A Developers have recently been taking a stricter line in cases of non payment by purchasers. This has been further accelerated by the fact that property prices have been going up, and it is often in the interests of a developer to withdraw the sale as he can now get a higher price for the property.

There are not many options available if you are about to default, but the few that exist I have highlighted here.

Firstly, inform the developer of your circumstances and ask for flexibility regarding the payment date. State when you

expect to be paid, and make sure you are confident of receiving sufficient funds by this date. In order to give further reassurance to the developer, you could issue post-dated cheques as a guarantee.

Secondly, if you know you won't make the payment but have sufficient time, then Dubai is a great place to sell your property.

Not an ideal situation perhaps, but a new buyer will take responsibility for all outstanding payments and you may still even make a profit.

Remember though, if you default on a payment you will not immediately lose your investment. By law, as in any other country, developers have to give you notice, typically at least a few weeks. If your money is delayed by just a few days you needn't worry too much, but I would suggest you discuss this with your developer for peace of mind.

In summary however, I would say that most developers are looking to make sure that buyers pay on time and

there is decreasing developer flexibility. You therefore need to do all you can to meet your contractual commitments.

Q I have taken possession of my new apartment and found a lot of the construction is of very poor quality. Hardly any of my sanitary fittings work and the AC is not effective enough against the heat.

A First of all, the good news: Most apartments come with a one year warranty which means that the developer will replace or fix any building-related defects or appliances free of charge. Most reputable developers, in particular Emaar, Nakheel and Dubai Properties, do their best to make sure repairs happen promptly, and have set up separate organisations to make sure units are properly maintained.

Onto the not-so-good news: Poor quality construction is not something that will be rectified by the developer. If every-



NEARLY DONE: Shoddy workmanship can be a real problem

thing works, you are stuck with it. Any upgrading, be it flooring, sanitary fittings or kitchenware, will have to be paid for out of your own pocket.

So, what to do next? Unfortunately it often takes developers a long time to get snagging fixed simply because of the workload pressure on their facilities management subsidiaries. Because of extensive 'snag lists' given by owners, it can sometimes take months and hence I recommend you focus on the pressing problems first - things you

can't live without. Defects to sanitary fittings and poor-performing AC are definite issues, so ensure they are fixed and then concentrate on the other, lesser problems.

Please remember, taking on an apartment generally involves compromise, and is not a perfect process anywhere in the world. Keep this in mind during your negotiations!

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In the old days, default used to be simple to handle in that the developer would just slap a one per cent per month interest charge on the outstanding amount and let the debt slide, sometimes for up to a year. Nakheel are still relatively flexible but all the master developers - Nakheel, Emaar and Dubai Properties included - have steadily shortened the time between default and the issuance of a final termination notice.

In the event that you



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Low-cost flats for a high rental yield

Q What is a reasonable rental yield in Dubai right now?

A Rental yield is defined as the ratio of rental income to the total purchase price of a property, and for the purpose of answering this question I am going to concentrate on residential rental yields.

If you are looking at returns purely from the rental yield point of view (distinct from the appreciation of the capital value of the property), then the best properties for you to purchase will be low-cost apartments.

It is still possible in Dubai to achieve a ten per cent gross rental yield from properties of this type, such as those found in International City, Discovery Gardens and other low-price developments.

Yields have been coming down in Dubai of late, due to a rise in property values which is even higher than the hike in rents.

As a result, if you buy a high-quality apartment in Dubai at the moment you will probably achieve a seven to eight per cent rental yield.

Rental yield on villas is currently very low, and in some villa developments you may not even achieve a rental yield of five per cent.

Remember to incorporate service charges when calculat-

ing your rental yield or else you might be in for a nasty surprise. Gross rental yield is the total rent amount, whereas net rental yield is the rental amount minus service charges and other related costs.

These costs can often constitute as much as 20 to 25 per cent of your gross rental yield.

Q Should I invest in residential or commercial real estate in Dubai?

A The commercial market is extremely busy in Dubai right now, and as everybody knows there is currently a huge lack of commercial space available.

This shortage is causing commercial rents to skyrocket, and we have seen rental increases of up to 50 per cent in some areas over the past year.

Pressure on commercial premises is increasing - existing Dubai-based companies are expanding rapidly and new companies are opening up in Dubai on a

daily basis. All of these companies require new or additional space, creating escalating demand in the market.

However, I have some strongly-held personal views on the commercial real estate market, and believe it is not as bullish as it may first appear.

It is clear that there is a huge amount of commercial development going on in Dubai at the moment, and yet relatively little data is available regarding how many new companies are out there, or how much demand there is for commercial space.

We know that current demand is relatively high, but this may not be the case for much longer.

MiNC recently conducted a study which concluded that the amount of commercial space coming online in the next 18 months will outstrip demand several times over. This will, in our view, lead to a surplus of commercial space, which will create downward pressure on commercial rents



SAFE BET: Nakheel's Discovery Gardens offers good rental income

as well as commercial values.

So, should you invest in residential or commercial property? Well, right now the market is extremely buoyant and commercial space is commanding high prices and an expected rental yield of up to 15 per cent.

This presents a short to

medium-term opportunity, so if you can invest in commercial space now and tie up the rental income for five years or so, you could be sitting pretty.

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It will end in tears without a firm deal

Q I would like to buy a property, but the seller says it is to be purchased on a memorandum of understanding (MoU) only. Should I go ahead?

A Firstly, I would like to define what an MoU purchase is.

There are many master developers in Dubai who contractually do not allow the buyer to resell a property. They give you a certain amount of time in which to build your villa and stipulate that you are not allowed to sell your villa until the building is completed. Therefore, an MoU is an agreement to commence the sale process when the seller is legally allowed to do so.

Having defined this, my answer is actually relatively obvious: I would never recommend that anyone buy a property using anything other than a legally valid sale and purchase agreement.

An MoU is an extremely dangerous document as it is not recognised by the master developer. In case of dispute, even if you have transferred money for the

property, the matter will need to be resolved in court.

The court may not be particularly sympathetic to someone who has tried to skirt provisions of upstream contracts in the course of executing a transaction.

Very few sale and purchase contracts are carried out under the provision of an MoU, simply because of the number of people who have had their fingers burnt. It doesn't matter how much

you trust the seller, in these matters someone invariably ends up in tears.

All in all, I would strongly recommend that if you are purchasing a property, it should be done with a proper sale and purchase agreement, and in line with any of the agreements that have been signed upstream - between your seller and the master developer, for example.

Q What are the pros and cons of buying off-plan versus ready property here in the UAE?

A There are several advantages to buying off plan here.

First of all, there is a wide choice of areas in which you can buy many different types of off-plan properties. This is advantageous because a buyer has a much higher chance of finding a preferred type of property.

Secondly, off-plan property is significantly cheaper than ready property. Peculiar to Dubai, this phenomenon is driven by straightforward supply

and demand principles, whereby there is a lot of off-plan property available and relatively little ready property. The result is that if you buy off plan, you stand to gain some significant capital appreciation when the property is ready.

The third advantage is that there are often deferred payment plans in place. Therefore, rather than entering into a full mortgage, you can buy off plan with a single down payment which is a fraction of the full asking price. This gives you time to find the further payments required prior to completion. Mortgages are also available on off-plan property, which prevents you from having to put in an excessive amount of cash up front.

The final advantage is that if you buy an off-plan property early enough, you have the potential to realise market capital growth on top of the higher price you can command for ready property. As underlying market prices go up over time, you'll enjoy an advantage, having only paid a fraction of the final purchase price.



FOUNDATIONS: Only buy a villa on a sale and purchase agreement

Now for the disadvantages: the key downside to buying off-plan property is the risk of non-delivery on a number of fronts. Timing is the biggest issue - virtually no developments have been delivered on the originally promised date due to market pressures and circumstances outside the developer's control. Additionally, you run the risk

that your developer may go bankrupt or skip the country for fraudulent reasons. And you can't live in an off-plan property, hence you'll be stuck with paying rent until your home is finally ready.

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WITH SIMON EVEREST

Visa U-turn is the wrong way to go

Q I've heard that Dubai is reconsidering the provision of residence visas to those who purchase freehold property. Will this have an effect on Dubai's real estate market?

A To begin with, I am very surprised to hear that Dubai may withdraw a buyer's automatic right to a residence visa upon purchase of property.

This U-turn reneges on the promise that has been made to every person who has bought real estate in Dubai since the property laws were amended in 2002.

One of Dubai's unique selling points - and one which has amplified the property boom - is the automatic entitlement to a residence visa upon the purchase of property.

For many people, gaining a residence visa has been one of the main reasons for purchasing a property. Expatriates from neighbouring countries facing a

degree of political instability, such as Pakistan, Lebanon and Iran, have been attracted to Dubai largely on the assumption that owning a property would entitle them to long-term residence visas.

However, bear in mind that purchasing a property and gaining automatic residency within a country is a concept unheard of elsewhere in the world. Anyone who buys property in developed economies such as the UK, US or Europe is not automatically entitled to reside in that country.

The difference between Dubai and these Western markets is that in Dubai a residence visa is

essential to conduct your everyday life - be it opening a bank account, registering with DEWA, installing an internet line, buying a car, or renting a postal box.

In the UK, for instance, this is not the case and a person of any nationality or citizenship can do these things without residency.

If Dubai is determined to drop the automatic residence visa entitlement, it must be prepared to review these secondary impacts that the U-turn will bring.

Marwan Bin Ghalita, chief executive of Dubai's Real Estate Regulatory Agency (RERA), has suggested that Dubai may issue visas similar to those issued by other countries for foreign property investors. The US, for example, has over 250 types of visa.

Dubai has already announced that it is considering giving investors extended-duration visit visas.

The effect this decision will have on investors will need to be carefully reviewed.

Nonetheless, a large number of investors work within the UAE and therefore have access to sponsorship from their employers, so in this situation the U-turn would not affect them. Equally, a large number of buy-to-let property investors do not intend to reside in Dubai, and consequently the U-turn would also have no impact.

Furthermore, people from the European Union and other Western countries can enter the UAE with ease, automatically receiving 60-day visit visas on arrival. If the restrictions on opening bank and DEWA accounts were relaxed, the U-turn would have relatively little effect on this sector.

It is safe to say that it will have a bigger effect on nationalities that struggle to be issued visas through other means, such as Indians and Iranians.

Sadly, the U-turn will discriminate against nationals



WELL DOCUMENTED: The change will scarcely affect Westerners

from countries where the average household income is much lower than those with well-developed economies.

However, we must remember that Dubai will not take this decision lightly. The government will undertake consultation and extensive discussions prior to a final decision.

Its conclusion will undoubt-

edly reflect what is best to protect the property market, and as long as a workable solution can be found, then I believe that common sense will prevail.

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