

# Dubai's rental market seeks cure via rent-to-own route

SUCH SCHEMES ARE THE ONLY LONG-TERM SOLUTION TO LANDLORDS INCREASING RENTS

DUBAI

By MANOJ NAIR  
Associate Editor

Dubai's landlords may soon have cause to regret making unjustifiable rental demands on their tenants, who could soon be given the options they never had in the past. And it's up to the tenants to decide whether the status quo needs changing.

Some master-developers are reviving 'rent-to-own' schemes, and if offered at certain price points should have no trouble finding buyers. In rent-to-own, the buyer enters an arrangement with the developer whereby the monthly rents will count as instalments made on acquiring the property in full.

Dubai South (formerly Dubai World Central) has already confirmed that rent-to-own will be part of the incentives attached to its massive The Villages development. That this project will create as many as 20,000 homes — prices are yet to be revealed — within the cluster makes it even more influential in setting the future dynamic of Dubai's property marketplace. And the first of these units should be ready by 2019.

Another sprawling development, the Falconcity of Wonders is also having a version of rent-to-own. That this community already has a sizeable inventory makes it even attractive for a buyer to make the switch now from living in rented premises to one that he can call his own in time.

Any which way one looks at it, Dubai's residential tenants — especially the sizeable section of the population with household incomes of less than Dh20,000 a month — are near breaking point on their rent situation. After the recent round of increases, many saw their rental-related outgo go well past the 40 per cent mark of their overall household expenses. In an ideal situation, rentals should not constitute more

## FACT FILE

### Sectoral trends

- Residential rental values peaked in early 2009 and then began a steady decline of about 35 per cent and reached their absolute low in mid-2011, according to lookup.ae estimates.
- An estimated 40 per cent of future apartment supply is graded as high-end and 10 per cent as luxury.
- "One of the reasons why rentals have not corrected like the sales market is because many investor-landlords who are looking to sell [or may want to sell in the near future] decided to not rent out their properties as they become vacant," said Gibran Bham, Co-Founder of lookup.ae. "Once a unit is rented out, it is not easy to get it vacated and that could impact a potential sale. We believe that at least part of the reason we aren't seeing a shift downwards for rentals is artificial."
- "Historically, we are used to seeing drastic movements in Dubai realty," said Bham. "This has not been the case since 2014. Both sale and rental values are moving in more subtle ways. This market is less prone to shocks. Therefore, any corrections we see will be gradual."

### Indicators

- 185,900 units plus:** The number of completed freehold residential units in Dubai.
- 65,000 units:** The number of freehold properties under construction.
- 19.8%:** The increase in total supply if the expected completions of 2016 and 2017 do happen.

— M.N.

than 30 per cent of a household budget.

Unfortunately, from a tenant's perspective, the slide recorded in the property market has not extended to rents. Market updates suggest that whatever "corrections" there have been on rental, has been limited to low single digit dips. Contrast that with the 15-20 per cent decline recorded in Dubai's property sales values.

### Steady pace

According to the real estate database portal Lookup.ae, rentals "remained quite steady, appreciating about 10 per cent on average. From early 2013 to their peak in September 2014, average rentals have appreciated 30 per cent.

"Since then, rentals have declined only slightly and in most cases are holding quite steady."

This is where a well thought out rent-to-own scheme can upend the landlords' vice-like

hold in dictating terms.

"There are several expats who have been here for years and are now looking at buying a property, but finding it difficult due to the current mortgage cap restrictions," said Robin Teh, Country Manager at Chestertons Mena. "But rent-to-own schemes have benefits for both tenants and developers.

"Sellers get an option fee and a potential buyer, while tenants get to live in the property and try out the neighbourhood before actually settling in for the long-term. It also provides an opportunity for the seller to sell at a higher asking price because buyers who cannot own a house in any other way are usually willing to pay based on the assumption that the market will improve."

According to Gibran Bham, Co-Founder of lookup.ae, "Apartment rentals will correct more significantly than villas — there are approximately 41,000



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**Robin Teh |**  
Country Manager at  
Chestertons Mena

apartments under construction and 8,000 villas and 7,000 town houses.

"But much depends on how much of [the intended] 2016 supply gets pushed back. There are still many inaccurate reports that claim 20,000 units will be released in 2015. This is wholly inaccurate.

Much of the 2015 deliveries have been pushed back to 2016 and some of 2016 supply could be pushed back as well. Construction delays are common in Dubai.

"Either way, in terms of raw supply numbers, rentals will correct. It is just a matter of how significant it will be."

For Dubai's tenants, even the subtlest of change in their equation with landlords will be welcome.

# Babyshop to rely on more promotions

Mid-market retailer is 'cautious' amid lower consumer confidence as it seeks to maintain purchase volumes

DUBAI

By SARAH ALGETHAMI  
Staff Reporter

Babyshop, a Dubai-based childrenswear retailer, is considering focusing more on promotions to maintain the volume of consumers' purchases if the growth of the retail market continues to slow down, according to a top company official.

The retail market has softened this year due to factors including lower consumer confidence and a drop in spending by European and Russian tourists, mainly because of the weaker euro and rouble. This has caused the mid-market retailer to be "cautious", Vinod Talreja, chief executive of Babyshop, said in an interview.

"We try, under current circumstances, to give better value to customers. We bring a lot of mid-prices because we know that the economy is not as good as in previous years. Customers are looking for better value. So we try to see that they buy the same number of garments but at slightly adjusted prices," he said.

He said that Babyshop saw single-digit growth in sales during the Eid Al Adha holiday last month, which was below expectations. He said that this was because it closely followed the back to school season, so consumers were cautious about spending during that time.

"When the back to school season comes, a lot of the money goes into school fees and buying school supplies and uniforms. Eid comes immediately after that and there is a little bit of money left," he said.

In terms of its online business, the company said it will focus on having a wider range of products on its e-commerce site than its brick and mortar stores in the coming years to attract buyers



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**Vinod Talreja |**  
Chief executive of  
Babyshop

## Web focus

# 10,000

Number of products  
Babyshop currently  
has online.

online. Babyshop currently has around 10,000 products online.

"We are promoting certain product lines on our e-commerce site, like Mommy's Monday. So on Monday, there will be special offers and better prices than our brick and mortar stores," Talreja added.

## New stores

Babyshop plans to strengthen its presence in the UAE and the wider Middle East and Africa region, with 11 stores scheduled to open in the financial year ending June 2016 in the UAE, Saudi Arabia, Oman, Iraq, Pakistan and Nigeria, Talreja said.

The six stores set to open in the UAE will be located in Abu Dhabi, Sharjah and Dibba Al Hisn. Talreja declined to state the size of the investment for the expansion.

He said that the company is eyeing new markets to expand into, but did not name them. Asked if the company is interested in entering Iran, he said: "When the right time comes, it will definitely be one of the markets that we will be eyeing."

Babyshop operates 221 stores in the region.

# Dubai energy team to visit US

IRVINE, CALIFORNIA

Saeed Mohammad Al Tayer, Vice-Chairman of the Dubai Supreme Council of Energy and MD and CEO of the Dubai Electricity and Water Authority (Dewa) is heading a delegation to the United States after receiving an official invitation from the Department of Energy to participate in the Solar Decathlon competition, organised by the US Department of Energy in Irvine, California.

The delegation will take part in the Solar Decathlon events and will announce that Dubai will host the first and second Solar Decathlon competitions in 2018 and in 2020 in Dubai in conjunction with Expo 2020.

During the visit, the delegation will look at the latest practices and experiences in infrastructure projects on solar energy, renewable energy, clean coal, smart grids and carbon emission reductions.

— WAM

# Shipping costs to ease as regional piracy area downsized

Reduction in Somalia piracy means operators will be able to cut security costs

DUBAI

By ALEXANDER  
CORNWELL  
Staff Reporter

Shipping costs in the Middle East are expected to drop when a designated high-risk area, previously prone to Somali pirate attacks, is halved in December.

The revision of the BMP4 (Best Management Practices for Protection against Somalia Based Piracy) — announced last week — will likely see shipping operators cut back on security measures that had run up costs.

"It costs a lot of money to adhere to the recommendations [of the BMP4]," Ian Millen, Chief Operating Officer at Dryad Maritime, an international monitoring organisation, told *Gulf News* by phone from London.

The BMP4 has been revised, halving the high-risk area, after two years without a successful hijacking of a large commercial ship and more than a year since

shots were fired on a commercial vessel.

"We just haven't seen incidents," London-based Tim Hart, maritime manager at Control Risks, said by phone.

The revised area — effective December 1, 2015, will cover the Bab Al Mandab strait, Gulf of Aden and the Arabian Sea from the coast of Oman and down to Kenya in Africa but no longer the Red Sea, Gulf of Oman or Indian coast.

The Bab Al Mandab, in the Horn of Africa, separating the Arabian Peninsula and east Africa, is a vital thoroughfare for maritime trade. Most ships passing through are either coming from or going to Egypt's Suez Canal, through which around 8 per cent of the world's trade passes each year.

## Safety measures

Commercial shippers have had to introduce safety measures including employing armed guards, which saw costs run into the thousands, according to Millen, wrapping razor wire around the edges of the ship to fend off hijackers and a rise in insurance fees.

These costs are now expect-



**Ian Millen**

ed to drop, maritime experts say, because the advice will be that the security measures the shippers have been following should now be adhered to in half the area.

Matthew Pickin, Counterparty Risk Analyst at Infosppectrum, told *Gulf News* by email the revision of the BMP4 is expected to have a "positive effect on the costs for some of the large operators." However, he also said that many of "low profile ship operators will likely proceed as normal, with or without the necessary precautions."

The drop in piracy has also



**Matthew Pickin**

seen companies who provide armed guards to commercial shipping lines "unexpectedly" declare bankruptcy, Pickin said, a sign that shippers have already started cutting back on added security costs.

Maritime experts say piracy attacks fell due to a combination of greater industry collaboration in reporting incidents, the introduction of preventive measures, such as guards and razor wire, and also naval patrols.

There are a "huge amount of [navy] patrols and assets going through the area," Hart said.

US, Nato, EU, Russian, Indian

and Australian, among other naval forces, have patrolled the BMP4 for years, however, this is also expected to be cut back now that the risk area is halving.

The BMP4 was revised partly due to Omani and Indian lobbying efforts, according to Millen.

## India coastline risk

Ships had been hugging the Indian coast in efforts to avoid the high-risk area that ran up to their waters, while also in 2012, Italians aboard the *MV Enrica Lexie* shot and killed two Indians off the coast of southern India after mistaking them for pirates.

"The Indians were not happy that the high-risk area went right up to their territorial waters ... those are really, really busy shipping lanes and area, so you're just introducing more traffic," Millen said.

But even with the revision, attacks are still expected with smaller scale incidents continuing to occur off the coast of Salalah and Somalia.

"The area that is redrawn is still a considerable area. No one thinks the threat has completely gone away," Millen added.