Four-star projects in Dubai suit investors just fine

WITH NEW AREAS OF THE CITY IN FULL DEVELOPMENT MODE, OPTIONS ARE PLENTY

DUBAI

BY MANOJ NAIR
Associate Editor

Virendra Saklani/Gulf News

Dubai South development. As the development activity stretches out to the Expo 2020-Dubai South location, the options for hospitality operators scale up accordingly.

Four-star hospitality in Dubai sounds just as good as the five-star version … more so for investor-developers.

"The government is offering huge incentives for developers of three- and four-star properties until 2019-2020 — this translates into extremely attractive yields," said Saeed Khalifa Mohammad Al Fuqaei, chairman of the Shuraa Group, which has been involved in three such transactions to date. "And if you go by businesses that have consistently done well even since 2008, four-star hotels in Dubai have provided exceptional returns apart from investments in restaurants or supermarkets.

"When you have incentives from the government to create more hotel stock outside of five-star, you run with the opportunity."

Investors and developers have also been helped by more areas of the city opening up to mid-tier hospitality projects. In fact, the four-star hotel boom has closely followed most of the mixed-use communities that are getting created in the city. And as the development activity stretches out to the Expo 2020-Dubai South location, the options for hospitality operators scale up accordingly.

And there are prospects shaping up offshore as well, through the Deira Islands development. Apart from the high-end resorts, the Nakheel master-development will also see a fair sprinkling of more value-based hospitality offerings.

"The margins enjoyed by developers who own and operate their hotels vary with the scale of their operations," said Amruda Nair, CEO and managing director of Aiana Hotels and Resorts, in a recent interview. "Often the challenge is to manage the costs of a single asset due to high administrative and infrastructure costs that are required to market the hotel successfully.

"In such cases, often a franchise model or management contract with a brand is often more cost-effective.

"It is usually when the operations are scaled by multiple properties that the own-and-operate model works to the developer's advantage and can result in a 6-8 per cent increase in their returns."

Saeed Khalifa Mohammad Al Fuqaei

For Shuraa's Al Fuqaei, the intention is to build, but not own the properties. "I made a quite successful exit from our first project, which was a joint venture and with a location in Bur Dubai," he said. "We started early 2012 on the construction and sold it in 2014.

"For the other two projects, I opted to do it on my own — the profit realisations are definitely better this way. But unless you have deep pockets, it's best to do one project at a time."

Gulf hospitality pipeline is packed

Currently, among Gulf states, Saudi Arabia leads the race with 34,753 rooms under construction followed by UAE and Qatar.

— M.N.

Jaddaf deal

His company is close to finalising an exit for its property at Jaddaf, which leaves it with an ongoing development at Jumeirah Village. Going forward, Culture Village has the makings to be a good investor prospect, Al Fuqaei added.

Now that the Dubai Parks and Resorts' built theme parks in Jebel Ali are up and running, there could be growing investor interest for hotel-specific projects in and around that vicinity. In its projections for early 2017, the consultancy ValuStrat reckons that Dubai's hotel sector performance will be "driven by additional tourists seeking newly opened attractions".

And, according to Al Fuqaei, "The moment a particular emerging location gets the bulk of its infrastructure ready, that would be a good time for investor-developers to launch mid-market hotel projects. Land prices are still attractive.

"The best part of having such a project is it takes less time if the funds are there. And when you have the property ready with a hotel operator on board, the price you can sell at carries a higher premium.

"This status will continue all the way up to 2020 … and even thereafter. It's one reason why Shuraa's development profile will remain strictly confined to hospitality."

Trump win is net positive for London

Realty Check

By Robert Fraser
Special to Gulf News

Now that the dust has settled on Donald Trump's surprise win in the poll, real estate professionals around the globe are debating the potential implications on global markets. In what can only be described as an uncertain world economic situation, there are worries around oil price stability along with the dollar value.

Both are factors that could lead to greater global economic insecurity.

For London, its historic position as one of the world's most secure property locations may well be improved as investors seek out reliable investments. The fallout from Brexit won't last that long and buyers from around the world will soon forget.

The appetite for change has clearly been voiced in the US, just as it was in the UK in June with the Brexit referendum. While US nationals have never been the heaviest investors in London due to complicated tax liabilities, I am sure that there will be Americans, perhaps those already in a rental property, who decide that now is the right time to take up permanent residence in the UK capital.

It could become the chosen destination for those who are looking to leave America. However, the UK capital could be the choice of not just Americans but also the wealthy from China or the Middle East, many of whom would have chosen to live in New York City.

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In addition, international dollar-based buyers such as those from the Middle East, who have been biding their time following the recent sterling drop, may decide that conditions are better. Luxury property in up and coming areas of London will be seen as attractive investment opportunities due to the lower pound.

The sentiment among London property agents following the Trump election is generally optimistic. His victory brings the world's largest economy into a pro-business, pro-property narrative.

Despite a general distaste for Trump, our commercial and residential property markets could end up beneficiaries from his presidency. Until now the UK has appeared as a political anomaly since the Brexit vote, for having turned its back on the economic consensus that favoured large trade agreements. Post-Trump, Brexit appears to be part of a wider political movement.

London's biggest rival across the pond for real estate investment, New York City, relies heavily on how Wall Street is faring as well as the normal drivers of supply and demand and its strong reputation as a safe haven. Wall Street has already seen some returns on the back of Trump's win, particularly for construction companies, which will bolster confidence in the sector.

Trump's economic ideology consists of large tax cuts and increased investment in infrastructure, which could provide welcome boosts to the property market. I am sceptical of any adverse impact on housing markets in trusted locations such as New York, which will remain a global go-to for investors for years to come.

And it's to be noted that enquiries from potential American purchasers for London property has shown a big upward swing since Trump's election.

The writer is managing director, Fraser & Co.

Motor City prices closest to their peak in 2014

Mid-tier locations such as Dubai Production Zone and International City lead recovery

DUBAI

Staff Report

Dubai's mid-market communities are leading in the race to head back to mid-2014 value peaks — Motor City leads the pack, followed by Dubai Production Zone (formerly IMPS) and then comes that perennial favourite of the value-seeking investor, International City. In fact, current Motor City values are just 5 per cent off from their peak, according to data from the consultancy ValuStrat.

The gain in values is also apparent to an extent at The Greens, Discovery Gardens and, among high-end locations, the Downtown, Lakes and Victory Heights have been beneficiaries. But market watchers are not rushing to suggest that a full-blown recovery is now underway.

"We can expect more locations to join this trend during 2017, resulting in a gradual broadening of recovery that could result in persuading more potential buyers in making purchase decisions," said Haider Tuaima, research manager, ValuStrat. "Price growth is expected to be soft during 2017."

Interestingly, sales in November saw a significant spike compared with the monthly average prior to that. It was led by more developers revving up their off-plan launches, while ready property sales also held their own.

"In 2016, only a third of the planned residential units were completed and the general sentiment was favouring buyers more than the sellers," said Tuaima. "This year, citywide property prices were, on average, mostly flat.

China authorities calm fears about land rights

The issue had generated quite a bit of concern among some city dwellers

BEIJING

BY SUI-LEI WEE

China has clarified for the first time a closely watched issue of land rights that has caused uncertainty for the millions of Chinese who park their wealth in their homes.

Chinese officials said that a group of homeowners in Wenzhou, an eastern city, would not have to pay a fee to extend the rights to the land under their residences. Homeowners in China own their dwellings but not the land under them. All land in China is owned by the government, which parcels it out to developers and homeowners through 20- to 70-year leases.

In Wenzhou, the local government had told some homeowners whose 20-year leases had expired that they would have to pay a large fee to renew, and the situation was being monitored closely across the country. Many Chinese homeowners, a bedrock of the country's economy and growing consumer sector, worried that they would have to pay dearly to keep using the land under their homes.


Bloomberg

A construction site in Shenzhen. All land in China is owned by the government, which parcels it out to developers and homeowners through 20- to 70-year leases.

The decision, announced by Wang Guanghua, China's vice-minister of land and resources, could pave the way for similar moves in other cities.

Wang said that the measures were temporary and that the government was working on "relevant legal arrangements" for those holding 70-year leases, according to a transcript of the briefing on the ministry's website. Much of China's residential land is covered by 70-year leases.

Land-use rights are set to expire in Qingdao, Jinan and Shenzhen, the state news agency Xinhua said. The measures "conform to the expectations of the masses," it said. "For all citizens, it is transmitting spring's first glow of warm air."

In 2007, China moved to reassure homeowners by requiring that local governments renew 70-year leases automatically. Yet the law did not make clear whether homeowners would have to pay for the renewal or what would happen to those with shorter leases.

China has one of the highest rates of home ownership in the world, about 90 per cent. Many people see it as a good investment in a country that has not had a sustained housing slump.

— *New York Times News Service*