

How to buy a property in Dubai and what you need to know about the market, return on investment, risks and specific legal aspects. Recommendations on investment capitalization, transactions, taxes and projects' reliability, shared by Casiana Dusa, Senior Attorney certified in Islamic Law, specializing in business consultancy in Romania and the Middle East



The investors who want to buy a property in Dubai should know that the best time to purchase off-plan properties is immediately after the launch of the project, as the prices at  $T_0$  time are very advantageous. Then, as the construction advances, its value increases proportionally by up to 20% per year, this percentage not being officially guaranteed, although shown by the market's current status. Thus, under present conditions, it is possible that prices for luxury projects located in good areas increase by up to 100% between the  $T_0$  time and the completion date. "We can really talk about the capitalization of the investment, when the value of the property starts to appreciate, directly proportional to the development of the construction and inversely proportional to the risk. I recommend investors who aim to capitalize their investment to organize their budget so that they sell after at least 18-24 months", points out *Casiana Duşa*, Senior Attorney specializing in business consultancy in Romania and the Middle East, certified in Islamic law, who already advises on projects handled by some Romanian investors in the region, in the article signed today in *BizLawyer*.

The author addressed, in this analysis, both the opportunities offered by the real estate market in the region and the risks incurred by an investor who is not familiar with the local legislation and rules.

Dubai is an economic giant that allows foreign investors to purchase or own real estate (land and buildings) in certain designated areas of the emirate for an unlimited period of time. "Considering the economic safety measures that Dubai has consolidated over time, the maturity of the market, the explosive growth of tourism potential, the continuous development of landmark projects and business opportunities, the facilities offered to foreign investors, Dubai being the 2nd market with the lowest real estate risk (after Warsaw) according to the Real Estate Bubble Risk 2022 report, as well as the increase of billionaire residents by approximately 20% in 2022, confirmed by the World Wealth Report 2022, a new collapse on the real estate market is literally impossible, although a stagnation of prices or a slight decrease is not excluded", says *Casiana Duşa* in the article hosted in her "Islamic Law" section on *BizLawyer*.

At the moment, due to the massive demand from top investors, there are many luxury off-plan projects for sale, such as *Elegance Tower* (starting price: 500,000 Euro) located in Downtown, *Chic Tower* (starting price: 700,000 Euro) in Business Bay, *Damac Bay by Cavalli* (starting price: 2,000,000 Euro) in Dubai Harbor or *Cavalli Couture* (starting price: 4,000,000 Euro) in Business Bay. But in addition to these, Dubai real estate market also offers projects at much more accessible prices that meet the demand of medium investors, such as *Safa One* and *Safa Two* complexes (starting price: 200,000 Euros).

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About all these, in the analysis published below under the signature of **Casiana Duşa**.

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### **How Dubai's real estate market has evolved since foreign investors were allowed to buy property until now**

The history of the real estate market in Dubai began in 2002, when His Highness Sheikh Mohammed Bin Rashid Al Maktoum, the President of Dubai, promulgated the decree by which he granted the right to acquire and own real estate (land and buildings) to foreign investors in certain designated areas on the territory of the emirate, for an unlimited period of time ("*freehold*"). Until that date, the right of exclusive ownership could only be held by Emirati citizens, while the foreigners were allowed only a right of concession over the buildings (no right on the land) for a duration of up to 99 years ("*leasehold*"). Currently, Article 4 of Law no. 7 / 2006 regarding the registration of real estate in the Emirate of Dubai, sets forth both options, the freehold option being definitely preferred by most foreign investors, including Romanians.

Naturally, the real estate market experienced an explosive growth between 2002 and 2008, with dozens of landmark projects launched for freehold sale. However, the years 2008-2009 brought a global collapse, with the world's major banks being closed as a direct consequence of a global housing crisis. In Dubai, apartment prices fell dramatically by up to 50%, many projects were canceled or suspended, while the economic crisis in the region was considered by economists to be a direct consequence of the explosion of the real-estate „bubble”.

Subsequently, the market started to recover in the years 2012-2014, when prices had an upward trend. However, the large stock of units could not be absorbed in such a short time, which caused prices to stagnate in 2014-2015, followed by a further decline in 2016, less aggressive than that of 2008-2009, but constant. In 2020-2021, the real estate market started to recover, reaching a top record in the 2022, estimated to further evolve in 2023, with an increase of up to 46%, according to [the publication Khaleej Times](#).

Therefore, it is questionable whether the current real estate boom will be followed by a new crisis similar to the one in 2008-2009. Considering the economic safety measures that Dubai has consolidated over time, the maturity of the market, the explosive growth of tourism potential, the continuous development of landmark projects and business opportunities, the facilities offered to foreign investors, Dubai being the 2nd market with the lowest real estate risk (after Warsaw) according to the *Real Estate Bubble Risk 2022* report, as well as the increase of billionaire residents (called "*ultra - HNWI, high net worth individuals*") by approximately 20% in 2022, as confirmed by the *World Wealth Report 2022*, another real estate collapse is literally impossible, although a price stagnation or a slight decline is not excluded.

### **About the investment capitalization at off-plan properties and sale procedure**

The best time to purchase off-plan properties is immediately after the launch of the project, as the prices at T0 time are very advantageous. Then, as the construction advances, its value increases proportionally by up to 20% per year, this percentage not being officially guaranteed, although shown by the market's current status. Thus, under present conditions, it is possible that prices for luxury projects located in good areas increase by up to 100% between the T0 time and the completion date.

Real estate investors can easily monitor the progress of the project by accessing the DubaiREST application, Mashrooi (*property status*) option.

Ideally, if an investor buys an off-plan apartment at T0 for 250,000 Euros, after 2 years (T1) his investment is likely to look as follows: the amount paid can reach approximately 50% from the total (125,000 Euro); capital appreciation will be up to 40% (100,000 Euro); the total value of the apartment will be 350,000 Euros; the amount obtained at the sale will be 225,000 Euros (i.e 50% paid + the appreciation of 100,000 Euros), the capitalization of the investment being therefore 80%. Of course, this is the ideal case and such a capitalization cannot be guaranteed in all situations, the most common margin being 50-80% per year, based on the forecasts given by the current evolution of the market.

We can really talk about the capitalization of the investment, when the value of the property starts to appreciate, directly proportional to the development of the construction and inversely proportional to the risk. I recommend investors who aim to capitalize their investment to organize their budget so that they sell after at least 18-24 months.

In furtherance of an investment appreciation and an optimal capitalization percentage, it is crucial that the choice of projects for investment be made knowingly, taking several criteria into consideration: location, connection to infrastructure, floor, view, community facilities, proximity, distance from main attractions, possibility of further exploitation and rental yields, etc. In this regard, the top areas with the greatest short-term and long-term investment potential are Business Bay, Downtown, Dubai Marina and Jumeirah Beach Residence.

From a legal point of view, Article 6 of Law no. 13 / 2008 regarding the Interim register of real estate in the Emirate of Dubai provides that off-plan properties which are properly registered can freely be the object of sale, mortgage or other right of disposal.

In practice, investors must meet several criteria to complete the sale of an off-plan property. Firstly, at least 30-40% of the total value of the apartment shall be paid in the project's escrow account, as per the payment plan (percentage that differs from one developer to another). Thereafter, a No Objection Certificate (NOC) from the developer will be required, confirming among other things, that the property is free of debts. Afterwards, the sale-purchase agreement will be concluded based on the payment terms agreed between the parties. Also, it is important to note that the buyer must pay the DLD (Dubai Land Department) tax of 4%, even if it was paid by the original owner at the T0 time of the purchase. Alternatively, Article 3 of the Executive Council Resolution no. 30 of 2013 regarding the approval of land taxes, the said tax can be divided equally between the seller and the buyer. Finally, such a transaction can be completed without the presence of the seller, provided that he issues a special power of attorney to this effect.

### **The exploitation of ready properties and yields. What inconveniences may occur and how can they be mitigated?**

There are two main ways to exploit properties in Dubai and each one comes with different returns and risks. On the one hand, investors can opt for renting the apartments on short-term as vacation home rental (*with the authorization of the Ministry of Tourism - DTCM*), and on the other hand they can opt for long-term lease (*in this case the lease agreement must be registered with Ejari register*).

It is important to point out that short-term rental brings higher income (in principle, yield is 10-15% per year), but comes with the risk of the apartment not being occupied in certain periods (for example, during very hot months), with problems generated by unprofessional property management companies and with the invariable level of profit. At the same time, long-term rental brings the certainty of a fixed monthly / annual income, but it can be much lower than the one obtained in the previous situation (in principle, yield is up to 8% per year).

Unfortunately, many investors who opt for short-term rentals need to deal with the lack of professionalism and

fairness of some property management companies that exploit the property irresponsibly, not providing official proof of income and expenses, transferring ridiculously low amounts to investors or worse, refusing to return their property if they express their dissatisfaction. Such inconveniences can definitely be prevented by thoroughly checking these companies before signing any contractual commitment. If problems arise, then the solution is to send a sharp and very well-founded legal notice to the respective company, as well as a complaint to the DTCM (Ministry of Tourism that authorized the property management company of the property in question).

### **Some misconceptions about Dubai, debunked by the local reality**

The frenzy of property purchases in Dubai, massively promoted in the public space, comes along with many contrary opinions of uninformed people who show a lack of confidence and negativism regarding the real estate boom we are all witnessing, the economic growth being in their view tantamount to "lie" or "bubble" that will burst soon with inflation. With all due respect for any opinion expressed on this topic, it is important that before issuing verdicts, we understand some important points that underlie the decision to make or refuse an investment.

First of all, we need to clarify what is the budget required to make a profitable investment in Dubai. According to some skeptics, it is good to place in this area funds that you are willing to block or lose, in other words alluding to a major risk, contrary to the official records existing globally. It is true that for properties purchased off-plan, you need to wait 3-5 years until completion, i.e. until the moment when you can actually exploit the property, but this disadvantage comes with the advantage of a payment plan in installments, without interest, directly to the developer. Moreover, all amounts are paid into an escrow account allocated to the project and not directly to the developer, so that the investment is protected, and in case of cancellation of the project, the investors have the right to the reimbursement of the amounts thus placed.

Secondly, regarding the risk of inflation, so circulated in the public space, let's note that the real estate market in Dubai is still expanding, strengthening its anti-inflationary shield through several factors, of which the government's strategy of economic diversification, the tourism growth (implicitly the increase of accommodation demand), the commendable post-pandemic recovery, the massive increase in the number of investors in luxury properties, the astonishing pace of development of real estate projects and their quality.

Moreover, it can be seen that the world's top billionaires are buying luxury properties in Dubai with 100% cash advance payment, in addition to the fact that the demand for properties is constantly increasing, remaining higher than the supply, hence the massive launch of new luxury projects in top areas of Dubai.

The latest luxury off-plan projects started due to massive demand from top investors are Elegance Tower (starting price: 500,000 Euros) located in Downtown, Chic Tower (starting price: 700,000 Euros) in Business Bay, Damac Bay by Cavalli (starting price: 2,000,000 Euro) in Dubai Harbour, Cavalli Couture (starting price: 4,000,000 Euro) in Business Bay. In addition to these, the Dubai real estate market also offers projects at much more accessible prices that meet the demand of medium investors, such as the Safa One and Safa Two complexes (starting price: 200,000 Euros).

In general, real estate investments represent an effective way of protection in inflationary periods, their values having an upward trend, as well as rent prices (to the advantage of property owners).

Dubai is among the world's countries with the lowest inflation percentage, economists predicting a percentage below 4% for 2023, respectively four times lower than the value recorded by [www.tradingeconomics.com](http://www.tradingeconomics.com) in December 2022 for Romania, respectively over 16%.

*Read also:*

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→ INTERVIEW | Casiana Duşa, Attorney with experience in Dubai and specialization in „Islamic Law”, founded Romanian Arab Investments House to boost the Muslim business community with interests in Romania and the Romanian entrepreneurs wishing to expand to the Middle East. „The interaction between the business environment, society and Islamic principles set up the premises for a sustainable investment in any jurisdiction”, says the Law graduate that studied Sharia principles and the Islamic Finance principles in the United Arab Emirates