

INDUSTRY INSIGHT



Commercial property a high-returns game

High ROI mostly achieved by properties located in business districts

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Special to Properties

Buying an office or retail space is a huge investment, which is why commercial real estate has been traditionally seen as an investment avenue for only institutional investors or high-net-worth individuals (HNWIs). But today, it is not only investors but also other professionals and end-users who are buying commercial properties for investment and self-use. Of course, HNWIs also continue to plough huge amounts of money into high-ticket commercial properties in the quest for yield.

Rental yield for commercial properties is estimated between 8% and 10%. In contrast, the yield for residential property is much lower. However, the capital appreciation in property value can be significant depending upon location, supply, etc.

Having said this, a saner head would also look at what happened during the last five years. For those who invested in 2007/2008, the returns would be extremely low, and capital value has fallen. When the real estate market was at its peak in 2008, off-plan offices in Business Bay were sold as high as Dh2,000 to Dh2,500 per sq.ft.; however, today the same offices have been completed and are available at Dh800 to Dh1,000 per sq.ft.

Most of the time, price appreciation and high return of investments are achieved in commercial properties located in prime business districts like Downtown Dubai, Dubai International Financial Centre, etc. The supply of Grade A office space is, however, more limited in secondary locations.

Investments in hotels and the industrial sector also offer investors promising returns and great potential. Hotels are not a low-cost investment but the return on investment can be huge. A great opportunity for this type of business exists globally and the hotel industry is constantly expanding.

The income that can be generated from commercial property is what determines its value. In other words, the capitalization rate is actually the measure of the demand for the property. For those who do their homework well, they know that investing in commercial property is a high-adrenaline and high-returns game.

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