

INDUSTRY INSIGHT



Good time to invest in commercial property

Growth still remains concentrated in the prime business districts

By Porush Jhunjhunwala
Special to Properties

Investors seeking high returns on investment are once again eyeing the commercial property market as the returns are lucrative. Historically, commercial real estate values have been cyclical and will continue to be so in the future. The available supply and cost of financing are the key components of these cycles. Commercial property, however, does offer some interesting opportunities at the moment.

Investment decisions should not be based on yields alone. Investors should consider capital growth prospects as well as income yield. Prospects for value growth are typically higher in prime business districts where there is a stronger core of owner-occupier demand.

Currently, the supply of Grade A office space in prime business districts is limited. Therefore, the demand-supply gap is widening and rents are increasing. Rising rents are tempting many business owners to invest in commercial property for self-use.

The Dubai economy is expected to sustain its growth momentum. According to the Department of Economic Development (DED), the GDP will grow by more than 4% in 2013. Tourism, trade, transportation and logistics are all witnessing strong performance, while construction and real estate have started to show encouraging signs of recovery.

The business outlook of Dubai is certainly looking brighter as macroeconomic fundamentals are stronger and investor confidence is rising. This positive outlook is reflected in the DED Business Confidence Index (BCI), which reached 135.9 points in Q4 2012, an increase of 11% compared to Q3 2012. In addition, the number of licenses issued to companies according to legal status and for investing in Dubai reached 4,582 in Q1 2013 compared to 4,414 in Q1 2012.

And while the commercial property market appears to be on a recovery path, it is important to note that growth remains concentrated within prime business districts, and is not being experienced in secondary and lower quality office space units yet.

The writer is Director, Banke International