

Debate over the ideal property asset continues

■ Apartments seem to be outperforming villas in the current market slump. Investment Boutique tracks both market types' performance to help investors make a wise choice



■ According to Asteco, asking rates for villa rentals fell by 34 per cent quarter-on-quarter in Q1-2009, while apartment rentals fell by 22 per cent

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Almost on a daily basis, investors — whether institutional or private — are faced with the daunting task of channeling and deploying their monies towards productive assets with the sole objective of maximising returns.

The choice of such assets could range from stocks, derivatives, investment funds and bonds, to commodities, collectibles, foreign exchange and real estate. Within each of these categories, there exists mind-boggling choices, making the job of fund managers extremely stressful, although rewarding.

In the real estate space itself, the choices are varied, with land, residential, ware-

houses, industrial, hotels, offices, marinas, malls and what have you. Through this article I seek to compare two sub-categories of asset classes — villas and apartments.

Though both fall under the broad category of residential property, they differ largely in terms of customer base, demand drivers, cost of construction, strata titles and, most importantly, price stability, rental yields and returns.

Investment Boutique has been tracking performance of apartments and villas since early 2005 as part of its Housing Price Index (HPI). According to the charts, villa prices are currently down to Q2-2006 prices, while apartments have only still reached the Q4-2007 level, indicating clearly enough that apartments

LEASE RATE CHANGE	
Unit type	% Change
Studio Apartment	-50%
1 Bed Apartment	-39%
2 Bed Apartment	-27%
3 Bed Apartment	-13%
3 Bed Villa	-51%
4 Bed Villa	-37%
5 Bed Villa	-40%

From peak to present (May 2009)

are handling the continuing market slump better than villas.

However, the charts actually indicate much more than this. Apartments seem to be the more stable asset class compared

AVERAGE SALES PRICE	
Community	% Change
Apartments	
International City	-41%
Downtown Burj Dubai	-54%
Business Bay	-49%
Dubai Silicon Oasis	-27%
Dubai Marina	-45%
Jumeirah Lake Towers	-33%
The Greens	-48%
Dubai Investment Park	-24%
The Palm Jumeirah	-37%
Villas	
Emirates Hills	-60%
Arabian Ranches	-48%

Change from peak to present (May 2009)



■ Villa sale prices slipped by 54 per cent from their peak in 2008 on average, as detailed on a community-wise basis

In the case of property purchased in 2005, and sold between 2005 and 2008, villas had a much better return compared to apartments

with villas, which have witnessed huge price volatility. Villa prices rose significantly at the start of the period — by 50 per cent in 2005 and 30 per cent in 2006, followed by 10 per cent in 2007 and only 3 per cent in 2008, when prices reached their zenith.

Apartment price gains have been less volatile, rising only slightly in 2005, by 10 per cent in 2006 and 20 per cent in 2007.

It was only in 2008 that this asset class saw abnormal increases of up to 40 per cent. On the whole, villa prices more than tripled between 2005 and 2008 while apartment prices merely doubled.

Villa rents dip the most

As such, come 2009 villa prices have slipped just as fast as they rose. This fact has been mentioned a number of times over the last few months in reports by market analysts.

According to Asteco, asking prices for villa rentals fell by 34 per cent quarter-on-quarter in Q1-2009 while apartment rentals did so by 22 per cent. Sale prices declined on average by 43 per cent for villas and 39 per cent for apartments during the same period.

Landmark Advisory stated that villas prices lowered by 32 per cent in Q1-2009, while apartment prices dropped by 23 per cent.

The same trend is reflected through Investment Boutique's UAETD (UAE Transaction Database), which holds data based on actual transaction evidence provided on an ongoing basis by a growing consortium of contributors from the private sector.

According to the June 2009 IB Property-Monitor for Dubai — which is based on the

UAETD — lease rates on three-bedroom apartments have fallen 13 per cent since their peak last year, while rents on three-bedroom villas are down by 51 per cent.

Fall in sale prices

Also, while apartment sale prices have slipped by an average of 40 per cent from their peak in 2008, villas have fallen at an average of 54 per cent as detailed on a community-wise basis.

Apart from price stability, absolute returns on both asset classes would also influence investment choices. The chart provides a useful tool to compare returns.

Returns are largely dependent on when the property was purchased and when it was subsequently sold.

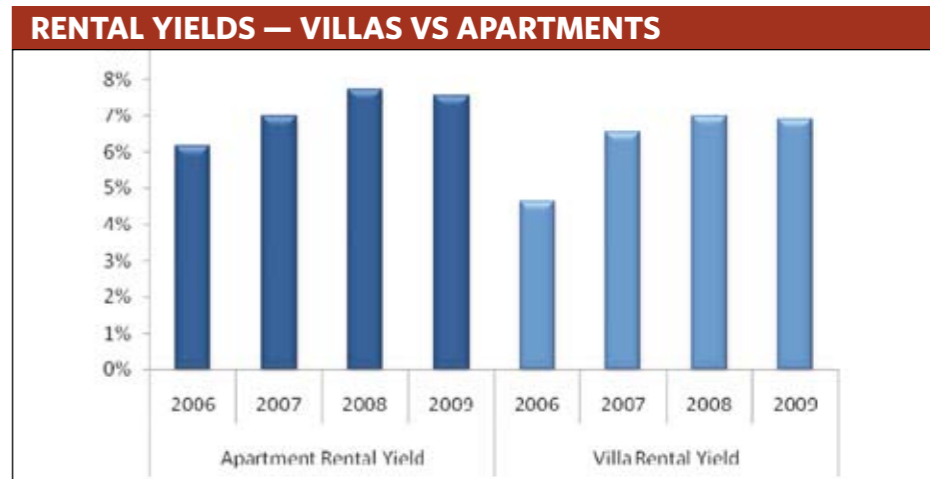
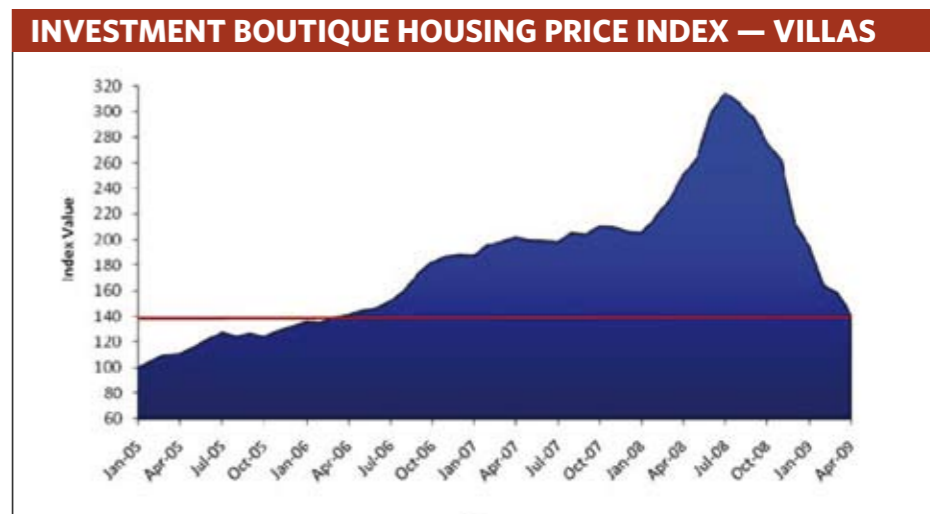
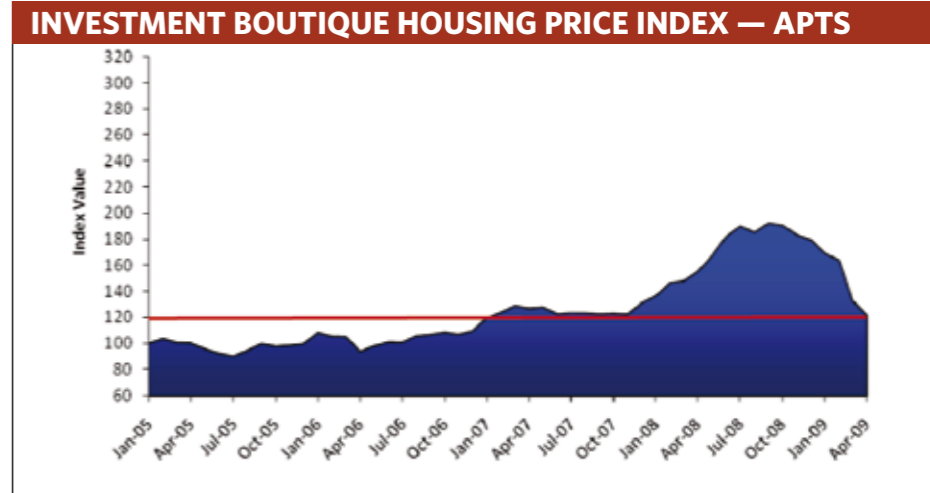
In the case of property purchased in 2005, and sold between 2005 and 2008, villas had a much better return compared to apartments.

However, in case of property bought after 2006, apartments have fared better than villas.

Another important indicator influencing investor choice is rental yields. While, rents are softening quite rapidly, apartments and villas still represent a gross yield of 7 to 7.5 per cent as illustrated in the adjacent chart.

Apartments have been giving a slightly better gross yield than villas, but maintenance costs and running costs on assets may differ completely depending on the type and size of apartment or villa as well as its location and its build quality.

While this factor does influence cash-flow and thus investor choice, detailed information is not currently available to enable comparison. However, Investment



Boutique plans to conduct thorough research on maintenance costs on different asset classes over the next few months in the 'Real Estate Operating Report', which is due out at the end of Q3-2009.

It is also worth noting that even though residential property is generally not an institutional investment product, it is often easier to turn an apartment block into an annuity with corporate tenants willing to take long-term leases.

In the case of villas, the rental values corporate tenants will be willing to pay usually results in yields that are too low for the institutional investor's appetite.

Another decision driver would be the upcoming supply of villas and apartment units and their impact on the market. Investment Boutique maintains an in-

ventory of upcoming supply and is currently in the process of updating supply numbers based on the current scenario of projects being cancelled and being put on hold.

A conclusion on which is better — villas or apartments — is difficult, as this truly depends on investor appetite with regards to risk and returns, as well as what the future will hold for the rental market based on upcoming supply.

However, the above analysis is expected to enable a more intelligent decision by investors.

The writer is senior manager — research for Investment Boutique, a UAE-based real estate consultancy that provides advisory, research and portfolio management services. Graphs and tables courtesy: Investment Boutique