

What you need to know when starting up a company in dubai's real estate space

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Real estate is one of the major economic sectors in Dubai. Everyone has an opinion on the market, and most people have some form of link to the asset class either directly through their work or through experience as an investor, homeowner or tenant. It is certainly a talking point with anyone you meet. But how feasible is it from an entrepreneurial perspective? , I have learnt many lessons, having set up four companies in the real estate space, with the majority of my time being spent on the Dubai brokerage business. When you are researching the potential of starting a new venture, it is important to consider both the strengths and the challenges of starting a Dubai real estate company. What follows is, in my opinion, the major considerations that any entrepreneur should have during their research.

Advantages of starting a real estate company in Dubai

Clients If you are , you can find clients in most areas of Dubai. A high net worth individual in Dubai is likely to have a portfolio of real estate assets, and are usually looking to buy more, sell, or rent out properties on a regular basis. Therefore, there is a wide range of clients, and access to these people is more straightforward than in more mature markets, where the majority of real estate is typically held by institutions.

Upside potential A few times a year, we get what we call a “ big win.” This is usually when one of our agents does a big deal and collects a large commission, and you remember why you started in the first place! These large deals are great for easing pressure on the cash flow of the business, and also for inspiring other members of the team.

Regulation Unlike any other city in the region, Dubai is very advanced in terms of the regulation on real estate brokerage. This means, for the most part, brokers are protected from losing commissions due to being “cut out” of a deal e. g. where the buyer and seller, or landlord and tenant, or another agent goes directly to the other party, so they do not have to pay the commission. There is a structured training program for all brokers to go through before they are licensed, which is very beneficial.

Other areas In addition to the core sales and leasing activity, entrepreneurs can also diversify the business into other real estate activities, such as property management, research, advisory and valuations. These different activities provide different types of income to help balance the risk profile of the business.

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Challenges when starting a real estate company in Dubai

Competition In Dubai, the competition is fierce. At the time of writing, there are 1,960 real estate companies registered with the Dubai Land Department, with Real Estate Regulatory Agency (RERA) stating that 567 new companies were registered in 2014 alone. Even Marwan Bin Ghalita, the CEO of RERA, has admitted that there are too many brokers in Dubai, and that they are looking at ways to reduce this number. A main reason for this competition is that the barriers to entry are very low, and many people decide to enter the market without doing proper research first. In a city

where the population is not much more than 2 million, this means that there is a real estate company for every 1, 000 people!

Costs, the overheads in a real estate business can escalate dramatically. In addition to the usual rent, bills and salaries, the cost of licensing and regulation are much higher than many other sectors. Additionally, the cost of advertising is very high and it is a fundamental part of the business model.

Listings Unlike most Western cities, in Dubai there is not a culture of listing your property with one agent exclusively. Therefore, the majority of listings are given to many agents, so when you list a property, you are still very far from getting paid, and even when you have a deal agreed with a buyer, you can still lose it to a higher offer until the paperwork is signed and deposit paid.

Margins Most brokers are remunerated on a “ commission-only” basis. While many entrepreneurs initially see this as a good thing because it keeps salaries low, once they have been trading for some time, they realize that even on a profitable month, the net margins are very low. This is because the good agents are usually paid somewhere between 50–65% of all commissions generated, with various overrides usually in place for managers. Therefore the gross profit margin in the business is usually as low as 35% before any overheads are paid. This can make the net margins across a year closer to 10–15% (in the event that a profit is generated), which is very low compared to other business sectors.

RiskBecause of the aforementioned combination of , the breakeven point of a real estate brokerage business becomes very high. When mixed with highly volatile revenue, the risk profile of a brokerage is notably higher than businesses that rely on stable revenue generated by contractual fee income.

Valuation and exitA real estate brokerage is heavily reliant on its brokers as the main source of income. A business without an established brand will therefore struggle to get a high multiple on the valuation, because typically there is no contractual revenue on the P&L, and the revenue that comes in is volatile. An investor could buy the company and then the next day all the top earners could leave, and real estate companies are therefore notoriously hard to value.

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1. Start smallMy recommendation to anyone starting out in the space would be to minimize the business risks, and only start incurring heavier costs, once the business is profitable.

2. Cash is kingI would strongly recommend holding a significant amount of cash on the balance sheet to cover periods where deal flow is slow.

Specifically, I would aim to hold somewhere between 6–12 months of overheads in cash.

3. Get your marketing right. Ensure that you are placing a big focus on the online channels as opposed to print, and within this, track your cost per lead closely to ensure you are getting value from your advertising spend.

4. Hire smartInitially it will be difficult to hire experienced agents, as they usually have numerous offers and barter to get the highest commission percentage. My recommendation would be to , e. g. an entrepreneurial mindset and hunger to makemoneyrather than the right experience, and train these people from scratch. This also ensures they do not bring poor or unethical habits from their previous company.

5. Get your timing rightThe market has been slow for the past couple of years, and timing is everything in Dubai real estate. We anticipate that the market will bottom out in 2017, and activity levels are likely to pick up again in 2018. Keep track of the market research reports to see when activity is increasing, and enter the market when you feel the timing is right.

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