Researched and Collated By:
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BUILDING WEALTH THROUGH OWNERSHIP:

WHY YOU SHOULD BUY INSTEAD OF RENT

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The rates of home ownership in Europe range from 53% in Germany to 96% in Romania, with the United States at 65% and India at 86%. It is evident that the majority of the world's population owns their own homes. However, this is not the case in Abu Dhabi, where home ownership rates are significantly lower, despite the option for expatriates to purchase property in the Emirate. Our guide explores the question, why own your own home in the UAE's Capital?

Let's take a simple example, imagine you were renting a property worth 1,000,000 at 70,000 per year (a pretty standard 7% gross percentage). What if you were to buy this property? The first thing you'd need to understand is you'll need 20% of the purchase price as cash (AED 200,000) as banks will only lend 80% of the value of the property. The second thing is it will cost you about 4% of the value of the property in fees (2% transfer fee and 2% broker fee). The info-graphic here illustrates what happens.

	To Buy or To Rent	
	This example is based on a 1m property rented at 70,000, bought with a 25-year mortgage at 4.5% interest with a 20% down-payment.	
Initial outlay	AED 200,000 deposit required AED 40,000 approximate fees AED 800,000 loan from the bank	Nothing
Yearly fees	AED 35,637 interest payment to the Bank AED 17,722 principal payment to the Bank Total of AED 53,359	70,000 rent 3,500 municipality fees*
Comparison	Buying saves AED 20,141 in yearly payments, that rises to AED 37,863 when you add in the principal payment.	
That is a 50% saving when you buy		

*Owners don't pay municipality fees

#1 Pure Financial Sense

So as you can see by the infographic, buying a 1m AED property with a 20% deposit will mean you pay AED 35,637 in interest and AED 17,722 in principal to the bank. A total of AED 53,359. Compare that to the AED 73,500 you were paying in rent and municipality fees and that is a saving of AED 20,141. And when you consider that the principal repayments aren't lost, but pay down your loan, that saving rises to AED 37,863, or over 50%. The only payment you make which is lost is the interest payment of AED 35,637 per year.

#2 Inflation Proof Investment

Inflation means that if you keep your money in a bank account at 1% interest you're actually losing 7% of that money per year in real terms, as everything else is going up in price but your money stays almost the same. When you put your money in an asset that also appreciates along with inflation then you at least don't lose money.

A lot of people buy property hoping that their asset will appreciate a lot for them to make profit by "Capital Appreciation", but we show you below how you can make amazing gains just on small 3% and 4% inflation level appreciations.

#3 Capital Appreciation

When you buy a home with 1M of your own money and the home appreciates by 3% then you make 3% on your money. If you buy a home worth 1m with 200k of your own money and 800k of debt and the home appreciates by 3% you get 12% return on your own money. Sounds like a trick? It isn't. The asset is worth 1m – an increase of 3%. Now whether you own the house outright or you have borrowed to finance it that 30k comes to you, the bank doesn't get any of it. Your repayment stays the same and the amount owed to the bank isn't adjusted. For your outlay of 200k assuming no appreciation of your home in real terms (i.e. an inflation rate of 3% increase) you see an 12% increase (30k) on the money you invested. This is called leverage.

#4 Paying Down Equity

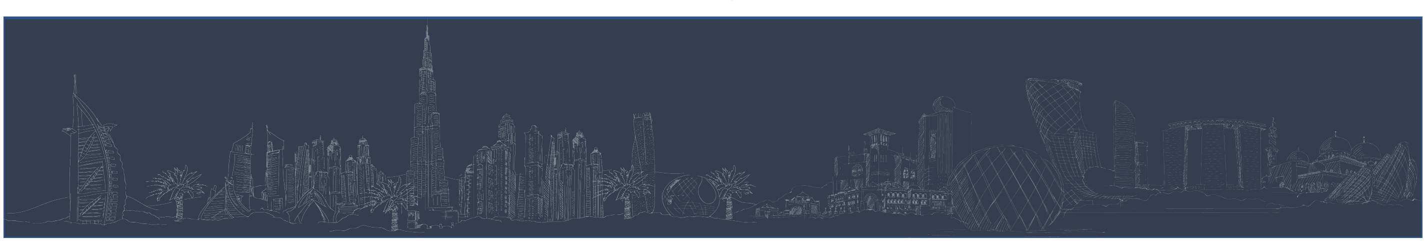
When you rent your money goes straight into your landlord's pocket and you get to stay in his property for a year. When the property is yours you either own it outright (so no rent at all) or more likely you have finance on it. The infographic on the other page shows that the repayment on an AED 800,000 loan is about AED 53,359 per year. That is AED 20,141 less than the rent you'd be paying. Even better, part of the payments going to the bank are paying down the loan, so you'll receive that money back when you sell. This is the "principal repayment" and in our example that makes your savings AED 37,863, or half of the rent you were paying.

So the only payment you make which is lost (in the way that "rent" is lost) is just the interest portion of the loan. Only AED 35,637 per year, whereas before you were paying AED 73,500.

Note – as an owner you will also need to pay service charges for your unit.

#5 Rent Insulation

If you own your own home your rent is the amount you're repaying to your bank every month, and with a fixed mortgage that amount doesn't change, no-matter what happens to rent and property prices in the Capital. Owning your own home insulates you from rent rises, and with the market the way it is today that makes a lot of sense.



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