

Investment options in the UAE

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ABSTRACT

Investment options are available in plenty in the UAE. What matters is the long-term stability and returns from these investments. Investment is regarded as "perfect" with security and regularity of income, growth of income, security of capital, growth of capital, liquidity, tax efficiency, homogeneity, low operating costs, match between assets and liability and assurance of psychic income (Brown & Matysiak, 2000). In this assignment, investment options shall be probed and the advantages and challenges accruing from investment in property shall be investigated.

Keywords:

INTRODUCTION

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Equity markets are another avenues for investment. Presently, there is a lot of volatility in the equity markets in the UAE (Gulf News, 2016). Small investors have a lot of concern for safeguarding their capital investments and equity markets appear as viable options for them. However, given the volatility and unpredictability of the stocks, it is not considered prudent to invest large stakes in equity markets.

Another option available to the investors is to opt for a safe deposit with the banks in the form of savings plan. A savings account may provide returns accompanied by 1-2% interest rate. Further on, there are options of investing in saving schemes which are offered by the banks and which have a turnaround period of about one year. Such savings schemes include Ghana Savings Account, National Bonds, Mashreq Millionaire, etc. The advantage of investing in these schemes is that 100% capital is guaranteed and there are chances of winning about Dh 2 million dirhams as per the lottery scheme. The additional benefit of investing in these savings schemes is that there is flexibility of withdrawing money without any penal charges. Thus, these are regular investment options wherein investment of small amount is made on a regular basis.

Besides, there are risk-regular investment plans which are liable to be influenced by general market risk. In this case, the funds are graded which provide signals to the customers regarding the preferences.

Then, there are E-saver accounts which are offered by banks like HSBC, Emirates NBD, Mashreq, ADCB, etc. E-saver accounts are ones which offer little more interest rates as compared to the regular savings accounts. However, these E-saver accounts have limitations because withdrawals are accompanied with restrictions and investors may not be in a position to draw money from these accounts on a regular basis.

Besides, there are national bonds which may be purchased online from money exchanges or banks. For investment in national bonds, the minimum amount required is AED 100 and its multiples. These bonds come with a holding period of 3 months and they may be easily redeemed in money exchanges over the counter.

Those investors who are looking for a maturity between 1 year to 5 years may find investments in stocks, gold, futures, hedge funds, etc. The disadvantage of these investments is that they are risky because market movements determine their performance.

For instance, gold may be a viable investment option in the form of coins, bars, certificated, ETFs and funds. Secondly, stock trading via DFM, NASDAQ and ADX is a suitable investment option provided that an investor has more than AED 10000 to invest in a single transaction. This is a viable option for the expatriates as well, given that expatriates form a sizeable proportion of the UAE population. Also, while many Initial Public Offers (IPO) are being launched by businesses, there are chances of getting good returns by investing in these IPOs. The disadvantage of investing in the IPOs is that with the plummeting oil prices, the impact on the IPOs is on the negative side. Furthermore, some companies issue Sukuks which provide an opportunity for investment.

Fixed deposits are another popular investment destinations of the UAE population. They are preferred over equity investments because they are more reliable and hold promises of better returns. Although general savings account investments are more lucrative, but they offer low interest rate on deposits in comparison to the fixed deposits.

Among the long-term options, property investment is considered to be a more robust investment (Issac and O'Leary, 2011). Property prices have tumbled down in the present year and investing in property may be considered as affordable as well as beneficial (Armatys, Askham & Green, 2009). Especially in the UAE, people are considering property investment now to earn returns in the wake of Expo 2020. Construction sector has witnessed a boom and it is anticipated that this sector will witness a further rise in near future. Further, rentals are rising and people find it advantageous to invest in property for earning income from rents. Likewise, mortgage rates have come down and therefore investors are finding it easier to purchase property. It may be mentioned here that banks, such as Abu Dhabi Islamic Bank and First Gulf Bank, are offering mortgage rates at mere 2.99% per annum for 2 years and at a floating rate thereafter. In this context, it may be worthwhile to note the emergence of the REITs (Real Estate Investment Trusts) which are companies to manage a portfolio of real estate for generating profits for shareholders. Therefore, in this case, an investment is being

made by purchasing shares in a listed property company that has elected for REIT status and runs in line with REIT rules. Investment in REITs is preferred because investors are able to diversify within the real estate market by holding an interest in multiple properties with minimal investment. Further, since risk is shared among many investors, investment in REITs is useful. REITs are also known to yield high dividends. They are quite liquid in that the investors are able to sell shares quickly. Even expatriates may express their interest in such property via a REIT. While these advantages are perceivable, the disadvantages associated with investment in REITs are that they are linked with low growth because 90% of income is to be paid to investors. REITs are linked with risks and extraneous factors (property values, interest rates, tax laws, etc.) should be borne in consideration. Operational decisions are not in the hands of REIT investors. Finally, REITs are linked with lower payouts for shareholders owing to high management and transaction fees.

Another long-term option for investment is the insurance plan scheme. However, the pitfalls associated with this investment are linked with the installments required to be paid. However, the risks associated with this kind of investment are less in comparison to the property investment.

Having discussed the different investment options, the last issue pertains to the option of investing in a bundle as a portfolio. Understandably, this is a viable option and might provide better adjustment of money because money pumped in a diverse pool is liable to earn more profits than when it is invested in a single instrument. Further, risks may be better managed by investing in a diverse portfolio so that in case of failure of one of the investment options, the others may work. Investment in property should definitely be considered as a viable option in this portfolio because it might serve to cushion shocks and distribute risks appropriately.

Finally, the following table provides a summary of the main dimensions touched upon in the presentation.

Key points in the presentation	Justifications
1. Introduction	This slide provides a holistic view of the presentation veering around the investment options in UAE. Besides outlining the key objectives of the presentation, the slide gives a glimpse into the dilemma in the minds of an investor
2. Investment in property in UAE	This slide provides an insight into the booming construction sector in the UAE and the opportunities of investing in property as a long-term asset.
3. Opportunities of investment in property in UAE	This slide looks into the different dimensions of property investment in the UAE: rentals, commercial buildings, residential spaces, parks, etc.
4. Challenges of investment in property in UAE	Some of the challenges associated with investment in property are related with risky nature of the construction market and the environmental pressures which impact the growth of the real estate sector in the UAE.

5. Investment in property vis-à-vis Stocks, Shares, Bonds, Gilts in UAE	While there are several options of investment in the UAE, the series of slides in this heading will probe into the challenges and comparisons of investing in stocks, bonds, gilts vis-à-vis the real estate sector. Issues such as maintenance costs, mortgage rates and rentals may arise in reference to the investment in property. However, there are challenges of interest rates, volatility and business cycles while investing in other options.
6. Investment portfolio containing a variety of investments (Strengths and weaknesses)	This is the final component of the presentation wherein the advantages and disadvantages accrued to an investor as a result of maintaining a portfolio are being considered.
7. Conclusion	Nothing may be deemed to be a “perfect” investment and every investment has its own pitfalls and positives. However, with a right balance of forethought and calculation, risk management may be better attained and returns from investment may be more wholesome.

References

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4. Isaac, D. & O’Leary, J. 2011. *Property Investment*. London: Palgrave Macmillan.