

inBrief



Understanding Rent to Own Schemes in Dubai

By Shahram Safai, Anna White and Elizabeth Brachaniec | 26 July 2020

In the midst of the Covid-19 pandemic, Dubai continues to be a buyer-friendly property market. With property values remaining depressed and an oversupply of stock, it has been increasingly common for developers to offer incentives to potential buyers such as post-handover payment plans, DLD registration fee rebates, service charge freezes, and rent to own schemes.

In this inBrief, we discuss rent to own scheme and how buyers can protect themselves when entering into such schemes.

Rent to Own Scheme

Under a rent to own arrangement, the purchaser is permitted to occupy the property under a tenancy agreement with an option to purchase the property from the seller at the end of the term. If the purchaser chooses not to purchase the property, then the contract terminates at the end of the term just as a normal tenancy agreement would, subject to the purchaser forfeiting a prescribed amount (known as the option fee) and the rent paid. Given the risk of forfeiture, the purchaser should ensure that it carefully negotiates these amounts in the tenancy agreement.

During the rental term, the purchaser pays rent to the seller, and a portion of this rent is allocated toward payment of the purchase price with the balance being payable at the time the purchaser exercises the option to purchase the property.

The advantage of a rent to own scheme is that during the rental period the purchaser can save money to pay the balance of the purchase price or to arrange a mortgage. In addition, the purchaser does not have to pay the seller an initial large upfront deposit, as is the case in most deferred sales arrangements/post-handover payment plans. The purchaser will also have the benefit of the protections afforded to tenants under law just as in a normal tenancy agreement.

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Buyer's Protection – Dubai Land Department (DLD) Registration

The law requires all dispositions (*i.e.* sale, lease and mortgage) of real property in Dubai to be registered with the relevant authorities to be valid. If a disposition is not registered, then the law deems the disposition to be invalid and therefore unenforceable. A rent to own arrangement is a disposition of real property which is required to be registered under law.

The DLD maintains the registration system for such rent to own arrangements and it requires the following fees to be paid by the seller and the purchaser before registration will be accepted:

Fees to be paid by the seller (unless the contract requires the purchaser to pay these):

- 2 per cent of the sale value;
- AED10 knowledge fees; and
- AED10 innovation fees.

Fees to be paid by the purchaser:

- 2 per cent of the sale value and 0.25 per cent of the rental value
- AED250 title deed issuance fee
- AED100 fee for issuance of land map (AED250 if a villa or apartment)
- AED40 knowledge fee at the rate of AED10 per fee
- AED40 innovation fee at the rate of AED10 per fee

In addition, the Real Estate Registration Trustee will also charge the following fees:

- if the sale value exceeds or is equal to AED500,000, then a fee of AED4,000 is payable; and
- if the sale value is less than AED500,000, then a fee of AED2,000 is payable.

Conclusion

The Covid-19 pandemic has resulted in continued uncertainty in the real estate market in the UAE and worldwide. As a result, we expect that developers will continue to offer rent to own schemes in order to provide an affordable alternative to purchasing. ■

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