

Quality matters

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Most real estate properties last decades; therefore developers and investors must take a long term view of sustaining the quality of properties. In Muscat, there are landmark properties, which are popular even today, although they are more than 30 years old. At the same time, there are many properties which are old and tired after about twenty years. Good properties tend to have sustainable cash flows from rental income whereas poor properties have diminishing cash flows in later years.

The first step in ensuring sustainable cash flows is to design and build good quality in the first place. Too many developers in Oman tend to go for the most competitive consultant and contractor from the cost angle. Usually, you get what you pay for and consultants and contractors who quote low may not deliver a quality product. Developers must look carefully at the consultant's design and specifications and his supervision quality, in addition to checking out the competence and track record of the contractor in delivering quality properties, before looking at the quote. Contractors are classified in to various grades and developers must ensure that the opportunity to bid must be given after a thorough prequalification exercise. Over a long period of time, returns are much better from good quality buildings although the initial costs may be higher.

The second step in ensuring longevity of a real estate asset is to maintain it. Too many owners in Oman do not spend the required amount on repairs and maintenance since they

think it will reduce their returns. In real fact, the contrary is true. Returns will improve if properties are well maintained since rents for well-maintained properties tend to attract quality tenants who will be willing to pay higher rents. Facilities management in Oman is in a nascent stage and part of the reason is that the market for quality facilities management is still very small. Owners must employ property managers who have good facilities management competence and track record, and must constantly monitor maintenance quality.

The third step in ensuring good returns is to refurbish the properties every ten to fifteen years. Finishing materials have a life span and flogging them beyond it lowers returns. In addition, manufacturers of building materials constantly invest in research and development and improve their quality. Refurbishing with the latest quality finishing items enhances returns considerably. It is our experience that refurbishment costs about 10 to 15 per cent of market value of the property, depending on the extent of refurbishment and enhances rents by about 20 per cent. In addition, repair costs go down significantly for a few years after refurbishment.

Too many investors in Oman, who buy properties from developers, tend to focus on the rental yield at the time of purchase, ignoring the fact that their rates of return depend more on future cash flows rather than current ones. Savvy investors look at sustainability of cash flows and accept lower initial rental yields if the quality of the property is good. **QER**