Cavendish Maxwell

The Dubai Smart Rental Index – a comprehensive enhancement in rental regulation

OPINION

Introduction

How can tenants know whether they are getting a good deal or not? How can investors determine whether the rent currently being paid on an existing property (the 'passing rent') is above or below the market? And how can existing owners know on what basis they should invest in renovating their properties? These are all important questions in real estate markets. Rental indexation by regulators can serve to answer them all. The more accurate the indexation, the better informed the market will be.

The use of a 'hedonic methodology' that identifies, attaches weighting to, and then combines many different aspects of each property – including technical, structural, geographic, and ancillary service aspects – is essential to derive an accurate, unbiased index. In Dubai, the recently introduced Smart Rental Index goes beyond just identifying the community where the property is located to include more than 60 variables for each individual property. It is therefore a qualitative and quantitative improvement on previous rental indexes available in Dubai, as it provides a more precise and data-driven rental valuation while incorporating a comprehensive quality assessment of properties, ensuring greater transparency, fairness, and accuracy in the market for all stakeholders.

Expert Insights

The Dubai Smart Rental Index marks a significant step toward a more transparent and data-driven rental market. By incorporating over 60 variables per property, it offers tenants, landlords, and investors a more precise benchmark for decision-making. This real-time, data-enriched index enhances pricing fairness, promotes market liquidity, and aligns Dubai's rental market with leading global regulatory frameworks, can be updated immediately across all areas of Dubai. This which will contribute to reducing the gap as well as potentially increasing market liquidity through greater transparency of rental rates.

An effective benchmark for tenants and landlords

The use of lease metadata enables analysis at the individual property level. This was not possible under the previous Real Estate Regulatory Authority (RERA) index which was based only on a single benchmark for each community. Existing and prospective tenants now have access to rental trends at the individual property level and between districts and types of property. They can now trawl through available properties, knowing their future rent trajectories, to determine their own subjective value for money. In future, tenants will be able to personalise their use of AI to search properties and compare their subjective preferences to the five-star system. This is paralleled by the Dubai Land Department (DLD) Model Tenant Classification which enables landlords to assess tenant credit quality more accurately through an integration of the Ejari and Makani systems.

Likewise, rental negotiations can now be undertaken at a much more granular level using comparative data. In a tight rental market, use of the previous RERA index in rental negotiations had already served to reduce the gap of up to 30% between new and existing residential leases in Dubai. However, new residential leases continue to track around 15% ahead.

Regulators want to ensure that the gap is as low as possible, both in order to ensure equity between existing and new tenants and to ensure that the cost of housing does not accelerate as a proportion of pay as the economy continues to grow. The RERA index was updated only annually, the last update being in March 2024, whereas the new index can be updated immediately across all areas of Dubai. This which will contribute to reducing the gap as well as potentially increasing market liquidity through greater transparency of rental rates.

Three ways the index will serve investors

The new Smart Rental Index will serve investors in three ways. First, at the macro level the index itself can be forecast. When combined with projected prices through an accurate index such as that produced by Property Monitor, it is now possible to build a customised index of the history, current level and future trajectory of Dubai property yields, applied to individual districts, special development zones and free zones. This promotes the effective analysis of different geographic areas within Dubai that is vital for investment decision-making.

In future, the scope of the index will gradually be extended to cover commercial real estate and this will further broaden the extent of accurate yield information for investors. From an overall regulatory perspective too, housing affordability calculations based on sampling individual properties will be facilitated by the new index. This is especially important given the widespread understanding by economists that 'poorly designed, blunt rent controls can be counterproductive'.[1]

Secondly, investors will be able to make more informed decisions about individual properties. They will also be able to do so much more quickly. The number of stars assigned to an investment property under the Smart Rental Index will now be associated with a particular rental trajectory. As investors base their decisions to a significant extent on future rental income, especially in the first few years of ownership, the Smart system improves the attractiveness of the Dubai market by comparison with European versions of rent regulation. The Smart system delivers answers in advance of making investment decisions rather than depend on subsequent regulatory tribunals.

Thirdly, landlords will be able to make informed decisions about their optimum level of investment in individual properties. Given a particular cost of capital and therefore discount rate, there will be a maximum capital expenditure that can be justified to gain the precise level of additional rent to be charged per additional star.

Consider a property that is currently rented for AED 8,000 monthly. On the basis of its star rating and the relationship between the current rent and the market, the landlord is currently allowed to increase the rent by 15%. If renovations were undertaken to increase its star rating by one, this would permit an increase of 30%, and if by two, 60%. If the landlord's cost of capital is 10%, then assuming full capitalisation of the rent, the rational maximum expenditure in the first case would be AED 144,000 and in the second, AED 288,000. More cautious landlords might consider even these numbers too high: some jurisdictions therefore restore a perfect market for investment of this kind through tax concessions.

The Dubai Smart Rental Index represents a groundbreaking initiative that offers transparency, efficiency, and fairness to the city's rental market. By providing real-time, data-driven insights into market trends, it empowers both tenants and landlords to make informed decisions. The index ensures competitive pricing and reduces discrepancies in rent prices, fostering trust between parties. With streamlined processes and a more predictable rental landscape, the Smart Rental Index enhances the overall quality of living in Dubai, supporting economic stability while promoting growth in the real estate sector.

Kieran Burley

Partner, Head of Investment and Commercial Agency

The signalling effect

This evidence indicates that the existence of a rental index of this kind also has an important signalling effect which has not been sufficiently emphasised. In producing an index of this kind, Dubai now joins a select group of well-regulated European jurisdictions in signalling to investors that the rental market will be regulated efficiently based on transparent and predictable criteria. Some cities in Germany employ the 'Mietspiegel' (rent mirror) to regulate rents. It is a rolling six-year database updated every other year based on local rents paid for comparable dwellings and including information on the quality of each address, divided, in the case of Berlin, into three categories.

Sometimes, however, political pressure can overwhelm the system. Recently in the case of Berlin, an old-fashioned 'first generation of control' rent freeze (Mietendeckel) was imposed – an important lesson for other jurisdictions seeking to maintain economically rational rent regulation.[2] In Sweden, rents are set by a Rent and Tenancy Tribunal on the basis of their reasonableness compared to the 'utility value', i.e., that the rent should be proportionate to the quality and standard of the apartment. A property's utility value is based on a range of characteristics of equivalent homes in the area: flat size, construction, how modern the property is relative to the average, quality of soundproofing, and its state of repair. A premium over utility value is allowed for newly constructed units known as 'presumption rents'. This is only allowed provided that the landlord has already entered into a collective bargaining agreement with the Tenants Union. In the Netherlands, a similar 'second generation' system (also observed in France, Ireland, Denmark and the Czech Republic), applying to both new and existing tenancies, allows tenants to appeal their rents within the first six months of their tenancy. The Rent Tribunal determines the property's rental value on the basis of a points system which takes account of the size of the property and other attributes including location and amenities.[3 4 5] In other jurisdictions, such as Kuwait, France and Denmark, the income of the tenant is taken into consideration by rent tribunals.

By comparison, relatively unregulated markets such as the UK and the USA tend to silo data collection and regulation. The influence of free market economics in these jurisdictions is especially noteworthy: there are many voices raised in opposition to any form of rent control at all. As a result, the USA is a patchwork quilt of regulation. Some states such as California and Oregon, as well as cities like New York and Washington DC, permit rent caps and other direct controls. Others rely on the market, even in many cases prohibiting rent control altogether.[6] In no case are rents controlled through an accurate hedonic indexation system such as the one now introduced in Dubai, even though the technology to produce sophisticated rental indexes have existed for decades.[7]

The aim of new Dubai Smart Rental Index is to add greater transparency, build trust, and provide tenants, landlords, and investors with a fair environment. The new classification system will be used to determine whether a unit can justifiably increase its rent based on specific criteria. This initiative provides an additional neutral and trusted source for all parties in the real estate and housing sector in Dubai. The Dubai Land Department has recognised the need to provide a fairer and more accurate rental valuation to tenants, investors, and landlords across the city, thus, introducing the new and improved Dubai Smart Rental Index 2025.

Ronan Arthur

Partner, Head of Residential Valuation

The result has been that landlords have seized the initiative with the use of software such as Yieldstar, arguably tilting rental markets in their favour.[8]

In the UK, which ironically led the way in producing hedonic house price indexes, the rental market is much more poorly served by indexation. Detailed hedonic indexes for private rents down to the local authority level are available from the Office of National Statistics (ONS), but they are used only for information purposes, not to regulate rents, which are set by the market in England and Wales. Scotland by contrast employs rent controls, but only by restricting existing tenancies to no increases at all in 2022–23 or a single percentage increase, as in 2023–24. These blanket measures were taken without reference to the granular data available to the ONS.[9] They therefore inevitably excluded new tenancies (making them so-called 'third generation' controls, i.e. weaker, as seen in the majority of European countries). They also created the requirement for a relatively cumbersome administrative process of 'Rent Pressure Zones' where the onus lies on local councils to apply for rent controls in their area.[10]

In Saudi Arabia, the Ministry of Housing guidelines and the Real Estate General Authority regulations for existing rental tenancy similarly restrict rent increases to 10% annually, although there is already an additional provision of reasonableness[11] similar to that currently proposed by the UK Government to enhance the current formal legal rights of tenants.[12] The Saudi government also keeps the process under constant review and it would be unsurprising to see eventual modifications to this regulation. In all such cases the benefits of a Smart Rental Index would be immediate and significant, as reasonableness would no longer depend on an extensive process of argument and rebuttal, with the decision eventually falling to the tribunal system. In England and Wales this system is already overburdened.[13] Instead, decisions would be based on calculations supported by AI. The idea itself is not new, but its actual implementation shows that – provided it is powered by accurate data and correctly calculated – the Smart Rental Index is a generation ahead as a solution to the problem.

Conclusions

Just as publicly available land registry data provides an effective regulatory framework and price transparency, the benchmarking capability that a reliable rental index delivers is an indicator that a real estate market has reached a desirable level of maturity. The Smart Rental Index therefore signals an important choice for the future, bringing a timely sophistication to the Dubai market that until now has been the prerogative of only a handful of established, well-regulated rental markets.

The new index is a significant and welcome addition to the suite of benchmarking tools available to renters and landlords. Its use in conjunction with existing price indexes is of especial importance to investors and lenders. With the introduction of this index, Dubai has leapfrogged many other jurisdictions and taken yet another step forward towards global preeminence among developed, well-regulated real estate markets. The competitiveness of Gulf real estate markets makes it likely that other jurisdictions will now seek to emulate Dubai, a process that is already underway in Ajman and Abu Dhabi, among others.

Cavendish Maxwell

Key Contacts

Julian Roche
Chief Economist
Cavendish Maxwell
julian.roche@cavendishmaxwell.com

Ronan Arthur
Partner, Head of Residential Valuation
ronan.arthur@cavendishmaxwell.com
+971 50 296 1411

Kieran Burley
Partner, Head of Investment and Commercial Agency
kieran.burley@cavendishmaxwell.com
+971 50 482 7934

For the complete list of references, please refer to our website

If you'd like to speak with one of our specialists, or for more information, please reach out to us.

Dubai
+971 4 453 9525
dubai@cavendishmaxwell.com
2205 Marina Plaza, Dubai Marina, P.O. Box 118624, Dubai, UAE

Dubai | Abu Dhabi | Sharjah | Ajman | Ras Al Khaimah | Muscat | Kuwait City | Riyadh

cavendishmaxwell.com

RICS Regulated by RICS