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## Great Homes Real Estate, LLC

Great Homes Real Estate, LLC, is a Canadian real estate management company that has a branch in Dubai, United Arab Emirates. The company is majority owned by a UAE National, who does not have an active role in running the business. Great Homes has a Canadian manager running the Dubai branch.

The main focus of Great Homes' business in Dubai is property management. The company signs agreements with owners of apartment buildings and villas to find renters and handle all maintenance and administration for the property. For this service they typically charge 10% of the rent received in a year for a villa and 5% for an apartment building. Great Homes also charges back maintenance costs of the property back to the owner.

Business has been tough in the last year. The Manager of the Dubai branch, Karen Evans, has found that more and more apartment building owners are either going to a low price, low service property management company, or bringing the business in-house, by starting their own property management company.

Low price property management companies charge as low as 1% of the rent, but provide almost no service. For example, a customer looking for a flat in an apartment building will typically phone a cellular phone number because these companies don't have formal offices, but work out of their own homes. When calling up, customers often get a dead line (the cellular phone is shut off) or an answer such as "Ughhh". They are then spoken to in a very un-professional manner. Further, they are directed to view flats themselves and are often given unclear directions as to how to find the building they wish to visit. Buildings managed by low price property management companies are often unclean, poorly guarded, and maintenance and repairs difficult for tenants to get done. This is typically because the people they phoned to rent the flat make their money by getting the lease signed and not by wasting time expediting repairs and maintenance, even if the actual cost of the repairs and maintenance are charged back to the owner of the building. Finally, the actual rental rate is somewhat negotiable in the low price managed buildings as the companies want to ensure high occupancy and quick "sales". Customers love the lower prices, but property owners do not.

Great Homes, on the other hand, has a centrally located office, a professional secretary answering the telephone, and personally accompanied, guided tours of buildings and flats that might fit the customer's requirements. Further, buildings that are managed by Great Homes are typically spotless in appearance and any problems tenants have with their flats are fixed immediately. All communication between Great Homes and tenants or future tenants is extremely professional and a formal waiting list for tenants is usually long, regardless of the usually higher rental rate. Owners of apartment buildings who use Great Homes services find that the cost is higher, but they have a much higher average occupancy rate over the years, typically 95% or higher. During times when there are a lot of flats available on the market Great Homes almost never has to lower the rents. Their waiting lists help keep their buildings at full occupancy.

The other option that some owners of apartment buildings are choosing is to start their own property management companies to manage their own buildings. In some cases the property management company provides a fair to good quality job, but in many cases the quality of service is the same as with a low price property management firm: poor. Further compounding the low quality of service is the fact that many owners are absentee landlords. They work full-time jobs in the government or travel to England or Europe for long periods. They are not at the building often, so the company they start is not managed well.

## **The Dilemma**

Shams Al Rama owns a 65 flat apartment building in the Bur Dubai area of Dubai. The building has been managed by Great Homes for the past 4 years. Like other Great Homes properties, occupancy is at 98%, the building is immaculately maintained, and there is always a waiting list for flats. Shams never has a problem dealing with Great Homes and besides paying them for their services on a bi-annual basis, hardly sees or hears from them. His bank account just keeps rising as the rents come in. This is good because Shams is busy all day and in the evenings with his exciting job in the Dubai Chamber of Commerce, where he meets and negotiates with foreign business owners interested in doing business in the UAE.

Right now Dubai is booming and there is a shortage of flats in Bur Dubai and most other central regions of the city. Shams has been approached by Radap Bandar of Stoney Real Estate, a low price property management firm. Radap made his company's services sound great, but he seemed too eager to close the deal and get out of Shams' office. This made Shams think that Radap might not follow through with the quality of service he offered. Shams' offer to manage Shams' building for 2% of the rent. This compared favorably to the 5% that Great Homes was charging Shams right now.

## **Glossary:**

Villa - Same as a "house"

Apartment building - "Apartment" = "flat". Normally rented to tenants, rather than owned by individual residents, in which case such a unit would be called a "condominium" or "condo" for short.

## **Questions:**

1. What are the key issues Shams should be considering? Analyze this case using both numeric ("quantitative") and strategic ("qualitative") tools.
2. What is the best choice for Shams? Support your answer.

**Appendix: Historical Dubai occupancy and rate information**

Occupancy:

(% units occupied - average of all buildings)	Geographic Areas of Dubai		
	Deira Dubai	Bur Dubai	Shk.Zayed Rd.
<b>1997</b>	98%	95%	80%
<b>1996</b>	90%	85%	70%
<b>1995</b>	85%	88%	n/a
<b>1994</b>	85%	90%	n/a

Rental Rates:

(average rent for a 3 BR flat - average of all buildings) (Dhs.)	Geographic Areas of Dubai		
	Deira Dubai	Bur Dubai	Shk.Zayed Rd.
<b>1997</b>	80,000	85,000	105,000
<b>1996</b>	70,000	75,000	90,000
<b>1995</b>	60,000	70,000	n/a
<b>1994</b>	55,000	65,000	n/a