

INVESTOR RETURN GUIDE

Rental Yield Guide

A clear way to calculate gross yield, net operating yield and cash-on-cash return - and to avoid the assumptions that make property returns look better than they are.

Gross

A fast screening metric - useful, but incomplete.

Net

A better view after recurring operating costs.

Stress test

The step that turns a brochure estimate into an investment model.

Three return metrics every property investor should separate.

When people say "yield", they can mean different things. Use consistent definitions so two properties can be compared fairly.

$$\text{Gross yield} = \text{Annual rent} \div \text{Purchase price} \times 100$$

Best for initial screening. It does not show vacancy, service charges, maintenance, management or finance costs.

Net operating yield

$(\text{Annual rent} - \text{recurring operating costs} - \text{vacancy allowance}) \div \text{acquisition cost}$

A stronger metric for comparing how efficiently the property itself produces income.

Cash-on-cash return

$\text{Annual pre-tax cash flow} \div \text{cash invested}$

Useful when financing is involved because debt service changes the return on your actual cash contribution.

A 7% gross yield can become a very different investment after service charges, vacancy, management and financing are included.

Rent

Use achievable rent, not only asking rent.

Costs

Model recurring and periodic costs.

Risk

Stress-test vacancy and weaker rent.

From headline yield to a realistic income view.

The example below is intentionally simple. Replace every assumption with evidence for the exact building, unit and rental strategy you are considering.

ILLUSTRATIVE ASSUMPTION	ANNUAL AMOUNT	WHY IT MATTERS
Purchase price	AED 1,500,000	Use the contracted price. For net return, also model acquisition costs separately.
Annual rent	AED 270,000	Equivalent to 18.0% gross yield.
Service charges	AED 18,000	Can materially change net yield; verify current/approved charges.
Management	AED 13,500	Illustrative 5% of rent; use your actual agreement.
Maintenance reserve	AED 3,000	Build a recurring allowance even if the property is new.
Vacancy allowance	AED 13,500	Illustrative 5%; vacancy depends on demand and leasing strategy.
Illustrative NOI	AED 235,500	Before debt service and tax considerations.
Net operating yield	15.7%	$235,500 \div 1,500,000$

Do not double-count

If you calculate net operating yield, keep financing outside NOI. Then calculate cash-on-cash separately after mortgage payments.

Include acquisition costs

For a true return-on-cost view, add registration, conveyancing, valuation, mortgage-related, furnishing and other transaction costs that apply to your deal.

Use official indices as a baseline, then go unit level.

Both Abu Dhabi and Dubai provide regulator-backed rental information. These tools help establish market context, but an individual unit can differ because of building quality, view, floor, condition, furnishing and lease terms.

Abu Dhabi

ADREC provides residential rental indicators and market data. Its published rental index is designed as a general guide based on aggregate area data, not a legal valuation of a specific unit.

Dubai

Dubai Land Department provides a Rental Index and related market services. It also provides a service-charge index, which is especially important when modelling net yield.

Evidence ladder: strongest to weakest

1

Recent achieved rent for the same or highly comparable unit

Best evidence if verified and truly comparable.

2

Multiple verified comps in the same building/community

Adjust for size, view, floor, condition and furnishing.

3

Official area-level rental index or dashboard

Useful context and a reality check.

4

Current portal asking rents

Useful for supply visibility, but asking price is not the same as achieved rent.

5

Sales brochure estimate

Use only as a hypothesis to verify independently.

The costs that quietly reduce net yield.

Small annual costs compound over a multi-year hold. Build a property-specific cost sheet before comparing two opportunities.

Service / community charges

Often the largest recurring owner cost in apartment communities. Check the relevant regulator or approved building data.

Maintenance reserve

Air-conditioning, appliances, paint, plumbing, wear and periodic refreshes need a realistic reserve.

Vacancy / leasing friction

Model time between tenants, leasing fees, rent-free periods or incentives where relevant.

Property management

Include management fees if you are not managing the property yourself.

Insurance / utilities

Include owner-paid insurance or utilities that remain your responsibility under the lease structure.

Financing

Mortgage interest and repayments do not belong in NOI, but they directly affect cash-on-cash return and liquidity risk.

Compare net income per dirham invested, not just annual rent per dirham of headline price.

Important: fees and charge structures vary by emirate, project and transaction type. Verify current rates rather than using old screenshots, listings or generic calculators.

A yield should survive a worse-than-expected year.

A strong model does not ask only "What can I earn?" It also asks "What happens if rent is weaker, costs rise, or the unit stays vacant longer?"

SCENARIO	RENT ASSUMPTION	COST ASSUMPTION	QUESTION TO ANSWER
Base	Expected rent	Expected costs	Does this meet your target return?
Soft rent	-10%	Same	Is the investment still acceptable?
Higher costs	Same	+15%	How sensitive is net yield to service and maintenance?
Longer vacancy	-1 month equivalent	Same	Can cash flow absorb a slower lease-up?
Combined downside	-10%	+15%	What is the downside yield?

18.0%

Illustrative gross yield.

15.7%

Illustrative net operating yield.

?

Your downside yield is the number that matters under pressure.

If a deal only works with perfect occupancy, rising rents and zero unexpected costs, it is not a conservative income model.

Financed buyers

Run a separate interest-rate and refinancing stress test. Your property can have positive NOI while your cash-on-cash return becomes unattractive after debt service.

Build a one-page return model before you buy.

Use this worksheet for every shortlisted unit. Keep assumptions consistent so the comparison remains meaningful.

INPUT	YOUR FIGURE	EVIDENCE / SOURCE
Purchase price	_____	SPA / offer
Acquisition costs	_____	Current official / professional quote
Expected annual rent	_____	Achieved comps + official index
Vacancy allowance	_____	Conservative assumption
Service charges	_____	Approved / current building data
Management	_____	Actual agreement
Maintenance reserve	_____	Your reserve assumption
Other owner costs	_____	Insurance / utilities / leasing
Gross yield	_____	Rent ÷ price
Net operating yield	_____	NOI ÷ acquisition cost
Cash-on-cash return	_____	After financing, if applicable

Decision rule: do not choose a unit because it has the highest stated yield. Choose the unit with the strongest evidence behind the rent, costs and demand assumptions at a price you can justify.

PROJECT-SPECIFIC GUIDANCE

Want the yield calculated on an actual unit?

Send the project, unit price, size and payment plan. A useful comparison should show both headline yield and a conservative net return after realistic recurring costs.

What we can compare with you

- Compare rent evidence from official and unit-level sources.
- Estimate gross yield, net operating yield and cash-on-cash return.
- Stress-test vacancy, service charges and weaker rent.
- Compare multiple units using one consistent model.

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OFFICIAL REFERENCES USED FOR THIS GUIDE

ADREC rental index announcement • ADREC market data • Dubai Land Department Rental Index • Dubai Land Department: service charge / rental tools

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