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Dubai Real Estate
Market Overview Q1 2011

Market Highlights – Q1 2011

- The investment market is polarising between private and institutional investors. Previously, transactions were limited by a lack of suitably priced investment grade products. Although the supply has not changed, owners are starting to adjust their price expectations. Concurrently, private investors are adopting a more aggressive risk profile, which, combined with more realistic sale prices, is closing bid-ask spreads. Thus, private investors will drive the investment market in 2011.

- Regional funds are focused on a select number of high quality, securely leased, institutional grade assets. The office market continues to see new supply entering the market pushing citywide vacancy rate to 44%. Prime rent declines abated, with average prime rents remaining stable in Q1 2011 after a hefty 21% decline in Q4 2010. Unrest in other MENA countries could increase demand for Dubai office space over the medium term as companies relocate to more stable markets. This demand is, however, unlikely to offset additional supply levels, resulting in a further decline in average rentals during 2011.

- Retail malls continue to experience vacancies of 15% to 30% as retailers have taken advantage of greater competition among centres to close poor performing stores. Thus, landlords are becoming increasingly realistic in rent negotiations, with many offering tenants more attractive and flexible terms based on sales turnovers.

- In Q1 2011, average rental rates continued to decline in the residential sector, but the rate of decline has slowed. Q4 2010 data indicates that transaction values and volumes have however increase compare to Q4 2009. Provided mortgage availability improves, lending rates remain low or fall further, and the government improves residency visa rules for property purchasers, we believe 2011 will see the build up of this buying momentum and selective price stabilisation.

- Hotels have experienced improved occupancy due to increased tourist arrivals in the first two months of the year. Project delays and cancellations will contribute to smoother absorption of new supply. While the wider hotel sector is in the process of stabilising and ADRs will remain depressed over the year, established beach hotels have reached the bottom and will outperform city hotels in 2011.

Market Milestones – Q1 2011

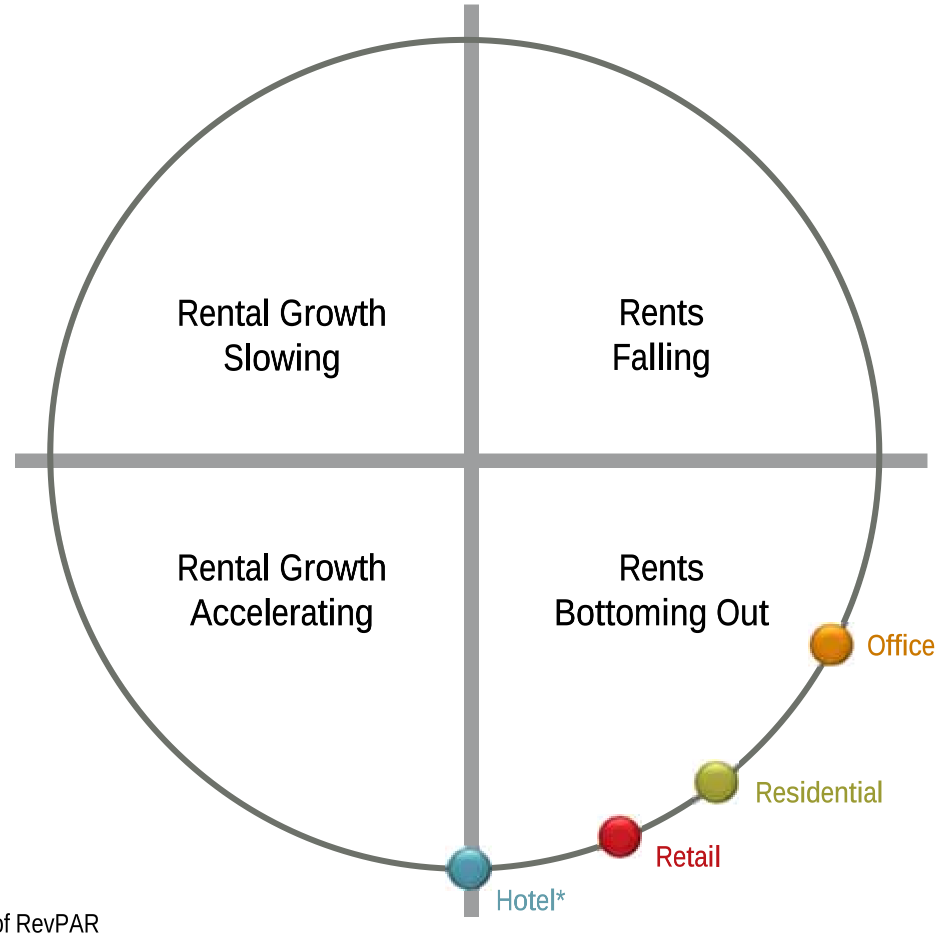
Economic News

- There has been a flow of relatively positive economic news during the quarter with the Dubai Statistics Centre suggesting real GDP growth of 2.2% in the Emirate during 2010.
- The Dubai Chamber of Commerce has announced total exports of its member entities increased by 15% to AED 215 billion in 2010.
- The UAE Ministry of Foreign Trade has announced that non oil trade increased 14% Y-o-Y in 2010 to AED 750 billion. Meanwhile Dubai Customs announced that Dubai's non-oil direct trading exchanges increased 18% to reach AED 576 billion in 2010.
- Passenger numbers at Dubai International Airport increased by 5.2% Y-o-Y in February to 3.83 million. The airport handled 46.3 million passenger in 2010, making it the fourth busiest in the world.
- Qatar has started issuing residency visas to property purchasers and is considering granting permanent residency status to foreigners. This move will increase the competitiveness of Doha and will strengthen calls for similar measures in the UAE.

Property & Project News

- Standard Chartered Bank (SCB) signed a 15 year pre let agreement for a new headquarter building in Downtown Burj Khalifa. The new building will be completed in 2012, with SCB committing to a minimum of 130,000 sq ft.
- Lakeside Residences in Jumeirah Lake Towers is the first project to receive financing guaranteed under RERA's Tayseer programme. It is hoped that another 48 projects will gain financing under the scheme by the end of this year.
- Nakheel has restarted construction work on a number of residential projects in Jumeirah Park, Al Furjan and Jumeirah Village.
- The opening of the passenger terminal in Al Maktoum International Airport has been postponed from October 2011 without a new date being announced. Dubai Airports has announced that it will instead focus on expanding the capacity of the existing Dubai International Airport in the short to medium term to meet growing passenger numbers.

Dubai Rental Clock – Q1 2011



* Hotel Sector reflects the movement of RevPAR
Source: Jones Lang LaSalle

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Dubai *Office* Market Overview

Key Takeaways – Office Market

Supply

- Total Office stock as at the end of Q1 2011 is approximately 60.2 million sq ft.
- Approx. 4.6 million sq ft was completed in Q1 with major new supply in Business Bay, Jumeirah Lake Towers and TECOM C. The single biggest completion in Q1 2011 was the U-Bora Tower in Business Bay with a total GLA of 770,000 sq ft.
- 2011 new supply is currently forecast to be around 14 million sq ft, broadly similar to the 2010 figure. Further postponement and cancellation of projects is, however, expected, which might reduce the 2011 completion figure.

Demand

- Standard Chartered Bank's (SCB) pre lease of a new 130,000 sq ft headquarters building in the Downtown Burj Khalifa area represents a positive commitment to the Dubai market.
- While there have been enquiries from tenants currently based in Cairo, Bahrain and other MENA markets experiencing unrest, this interest did not convert to increased leasing activity during Q1 2011.
- Jones Lang LaSalle is aware of active tenant demand totalling approximately 2.5 million sq ft.
- Tenant demand remains focused on single ownership space within the CBD area (from the World Trade Centre to Downtown Burj Khalifa) and certain free zone areas such as TECOM, with very little demand for strata titled space or that in less established locations.

Performance

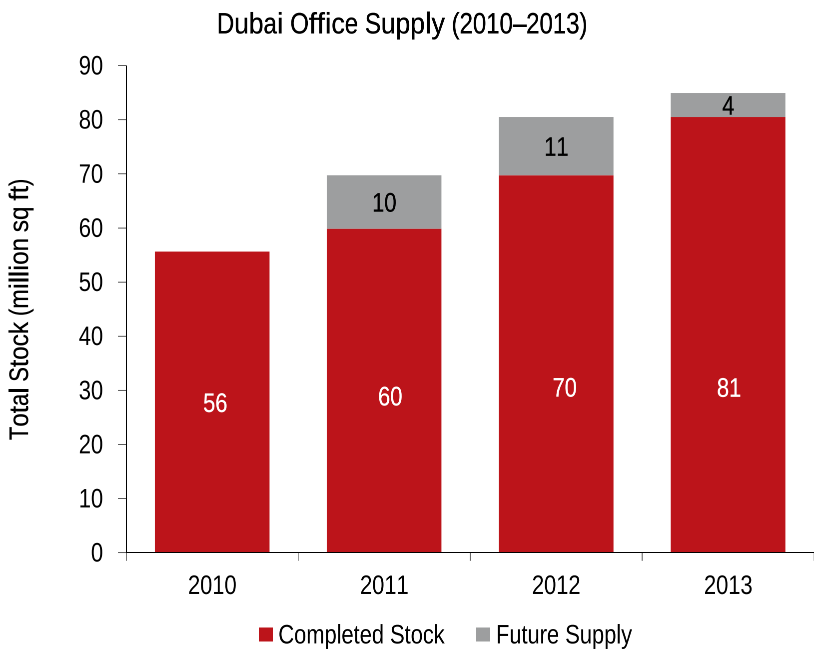
- City-wide vacancy rates have increased to around 44% and are expected to exceed 50% over the next year as new supply continues to be released.
- While CBD vacancy rates have increased in Q1, they remain significantly lower than those elsewhere, with 27% of the single ownership stock in the CBD currently vacant.
- Office rents remained largely unchanged during Q1. CBD rents were stable at AED 150 /sq ft, while average City-wide rents decreased marginally (by 1%) to AED 104 / sq ft.
- Office capital values have declined by 16%: Y-o-Y, with a Q-o-Q decrease of 1% to around AED 1,040 / sq ft.

Outlook

- Although we expect demand from companies seeking to relocate to Dubai from less stable regional countries to increase, this is unlikely to completely offset the large supply pipeline.
- This is expected to result in a continued increase in vacancies and further downward pressure on average rents during 2011.
- Continued relocation to high quality properties in better localities is expected throughout 2011 with older and inferior properties facing higher vacancies and declining rentals.

Office Supply – Current and Future Stock

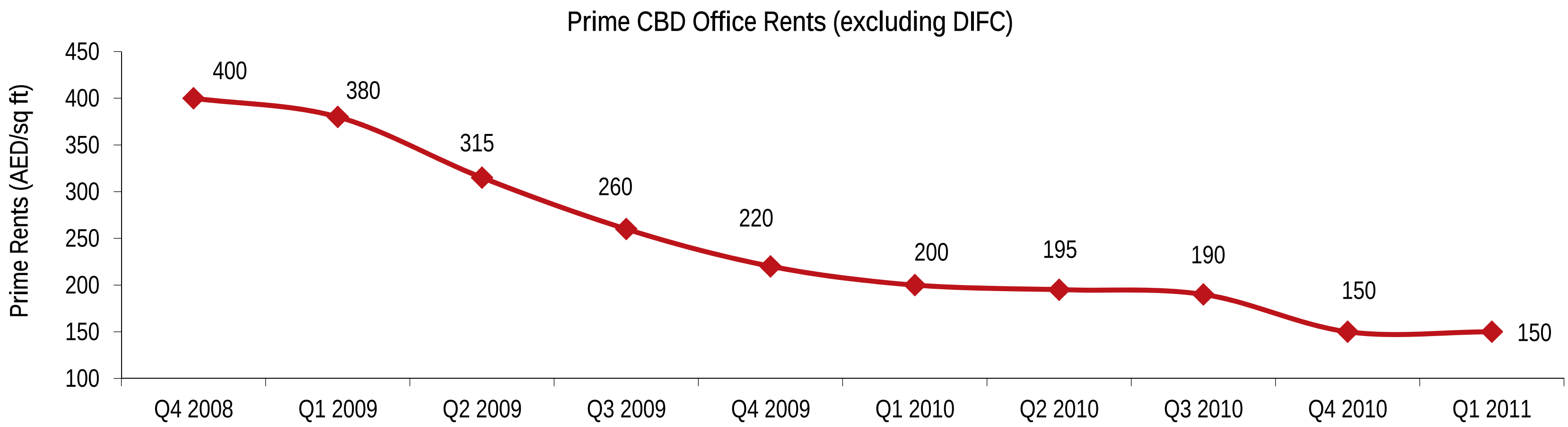
- Total city-wide office stock as at the end of Q1 2011 is approximately 60.2 million sq ft, with some 4.6 million sq ft being completed in the quarter.
- Major new additions to stock were recorded in Business Bay, JLT, TECOM C and the DIFC. The two biggest completions are U-Bora Tower in Business Bay (770, 000 sq ft) and I-Rise Tower in TECOM C (600,000 sq ft).
- The current estimate for completions in 2011 is approximately 14 million sq ft. However, actual deliveries might be lower as developers continue to face tight cash flow and the current over supply situation worsens.



Source: Jones Lang LaSalle, Q1 2011

Rental Performance

- After a 21% drop in Q4 2010, the market has taken a breather with average prime rents in the CBD (excluding DIFC) remaining unchanged in Q1 2011 at AED 150 per sq ft.
- Vacancy rates continued to increase across the market, with Citywide vacancies of 44% and vacancies in single ownership CBD properties increasing to 27%.
- The social unrest in other parts of the MENA region has led to increased enquiries for space in Dubai, but this has not translated to any specific leasing activity in Q1. In the medium term, the Dubai market could benefit from firm relocating from Cairo, Bahrain and other more volatile markets because of its relatively safe and stable market.
- In the short term (rest of 2011), rentals are likely to face further downward pressure as supply continues to outstrip demand.



Source: Jones Lang LaSalle, Q1 2011

Office Market Summary

Indicator	Level	Comment / Outlook
Current Office Stock	60.2 million sq ft	Includes all grades. Limited supply of around 10 million sq ft of single ownership space in the CBD.
Future Supply (2011–2013)	25 million sq ft	Further construction delays and cancellations could reduce this supply pipeline.
City-wide Vacancy CBD Single Ownership Vacancy	44% 27%	
Average CBD Rental Average – Citywide Rental	AED 150 sq ft AED 105 sq ft	
Average Sale Price	AED 1,040 / sq ft	Limited transactional evidence. Asking prices down by 64% from peak.

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Dubai *Residential* Market Overview

Key Takeaways – Residential Market

Supply

- A total of approximately 7,900 units were completed in Q1 2011, bringing the total residential stock to around 317,000 units. A further 20,700 units are expected to be completed in Q2-Q4 2011.
- Some major residential projects have restarted and are scheduled for completion in H1 2012.
- Potential supply in 2012 and beyond could be adjusted upwards later this year as more projects secure funding under the RERA's Tayseer programme. A project in JLT was the first to secure funding under this scheme in Q1 2011.
- The potential increase in future supply could be reduced by project cancellations, with RERA recently announcing they are reviewing the status of some 90,000 units.

Demand

- While there remains a shortage of accurate data on transaction levels in the Dubai market, figures released by Reidin suggest the total value of residential transactions increased by 30% during 2010 (compared to 2009).
- Reidin also reported a 20% increase in the number of residential transactions in 2010 compared to 2009.
- A general easing of lending conditions could result in a further increase in sales activity throughout 2011.
- Interest from private investors is confirmed by the recent sale of an entire completed residential building – Bahar 4 in JBR – from Dubai Property Group to a local private investor.

Performance

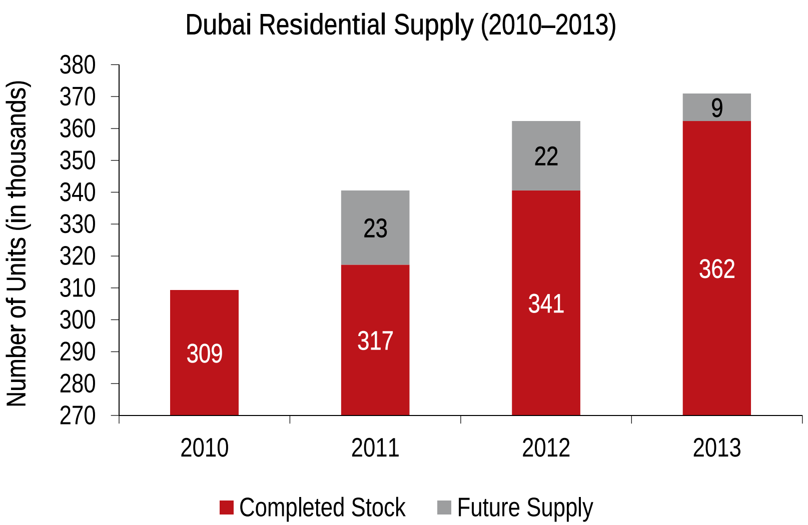
- Average apartment rents continued to decline (by 5% Y-o-Y and 2% Q-o-Q), with the greatest decline in the lower end segment.
- Average villa rents have decreased by 12% Y-o-Y and 2% Q-o-Q. Villla rents have however stabilised in the higher-end and more established residential developments such as Palm Jumeirah.
- Average apartment asking prices remained relatively stable over Q1 2011 at AED 980 psf. Average achieved prices for apartment decreased by about 7% to AED 773 per sq ft.
- Villa prices have seen a similar trend. Asking prices have remaining unchanged, while achieved prices have fallen around 6% to AED 883 per sq. ft.

Outlook

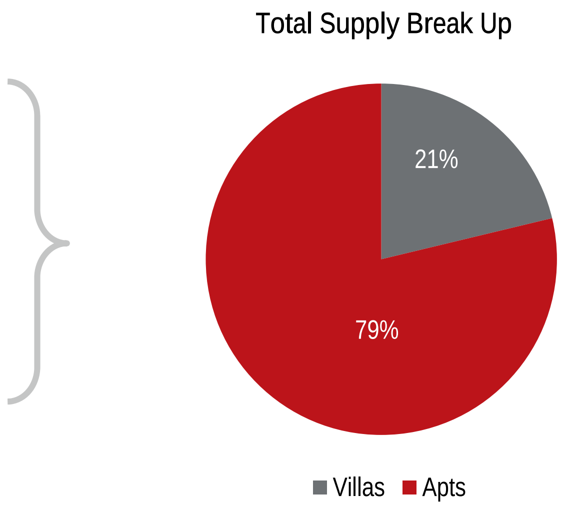
- Although there are pockets of stabilisation within Dubai's high end residential sector, the overall residential market will continue to experience a situation of oversupply and prices are expected to decline further over the remainder of 2011.
- Rents are likely to continue their downward trend during 2011 as new units enter the market in both Dubai and Abu Dhabi.
- Lending will remain a key factor in market recovery. The residential market will likely see improved lending during 2011 as more banks are injecting liquidity into the mortgage market.
- Qatar's move to liberalise its visa regulations could exert further pressure for similar changes within the UAE. This would represent a major boost for the Dubai residential market.

Current & Future Residential Supply

- Approximately 7,900 units were completed in Q1 2011, bringing the total current residential stock to 317,200 units.
- A further 20,000 units are expected to be completed by end 2011, bringing the total residential stock to approximately 338,000 as at the end of 2011. Apartments will constitute 79% of total residential stock by the end of 2011.
- With Nakheel commencing some of their stalled projects and the first project financing under RERA's Tayseer programme (for Lakeside Residence in JLT) being announced, future supply figures for 2012 and beyond could be increased. There are currently another 114 projects in this scheme. This trend could however be offset if RERA cancel some of the 90,000 units that it is currently reviewing the construction status of.



Source: Jones Lang LaSalle, Q1 2011



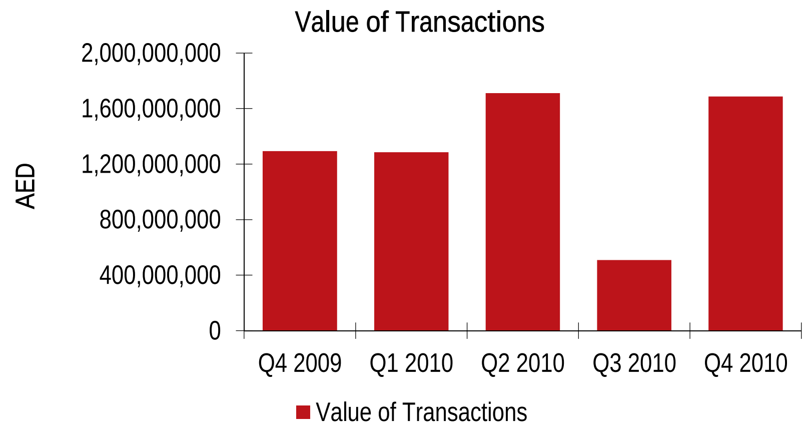
Source: Jones Lang LaSalle, Q1 2011

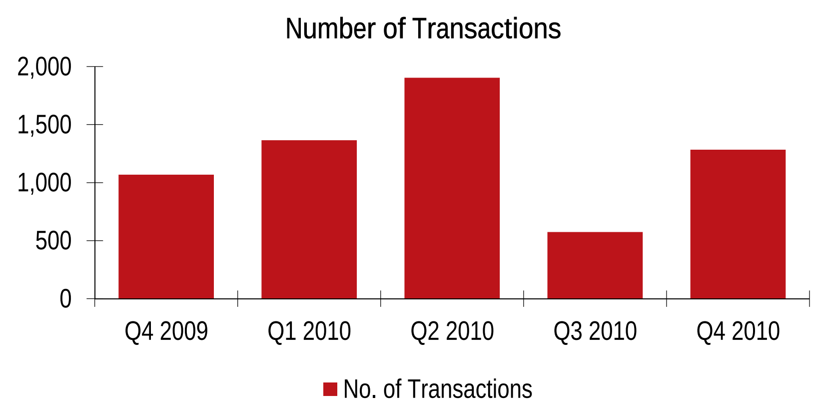
Residential Sales Transactions

- There remains a shortage of reliable data on transaction levels in the Dubai residential market, with no data available for Q1 2011.
- Data released by Reidin suggests the value of transactions increased by 30% in 2010, while the number of transactions have increased by 20%. This data relates to the data of project registration rather than transaction date, and may therefore reflect earlier sales being registered at the Dubai Lands Department.
- With prices now stabilising in some sectors and a general easing of lending conditions occurring, transaction volumes could increase further during 2011.

	Q4 2009 – Q4 2010 Change
Value of Transactions	30%
Number of Transactions	20%

Source: Reidin

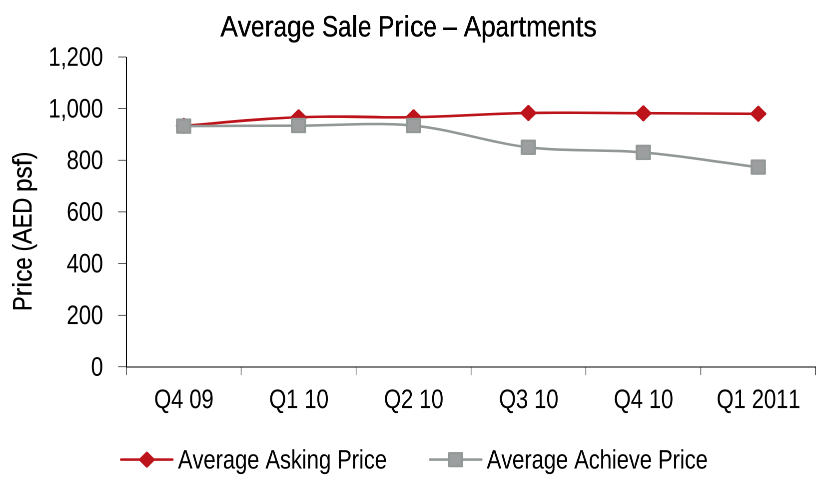




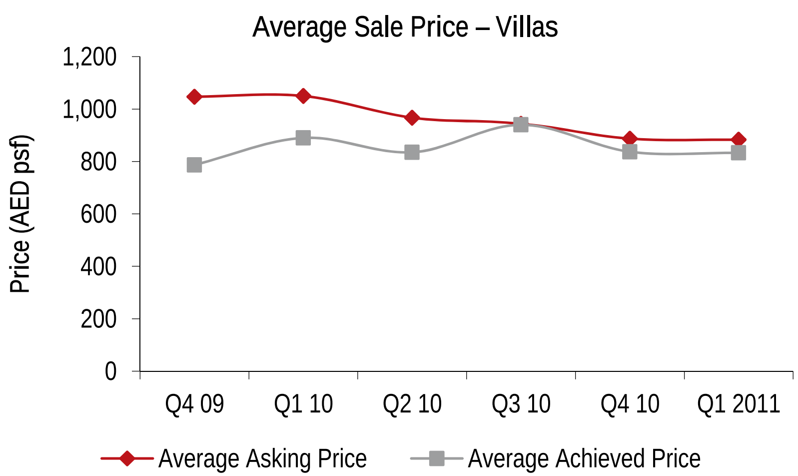
Source: Reidin, March 2011

Residential Sale Prices

- The gap between asking price and achieved price for apartments has widened to around 20% over the past few quarters.
- Average asking prices for apartments remained fairly stable at AED 980 per square foot during Q1 2011, while the average achieved prices decreased by almost 7% to around AED 773 psf.
- The average achieved price for villas declined 6% over Q1 to AED 833 per sq ft, while asking prices have remained largely unchanged. The gap between asking and achieved prices for villas (around 6%) is less than that for apartments.
- Achieved prices for both apartments and villas remain relatively stable compared to the major falls recorded in 2009.



Source: Reidin.com, Jones Lang LaSalle, Q1 2011
Note: Asking Prices are based on Jones Lang LaSalle's basket of properties



Source: Reidin.com, Jones Lang LaSalle, Q1 2011

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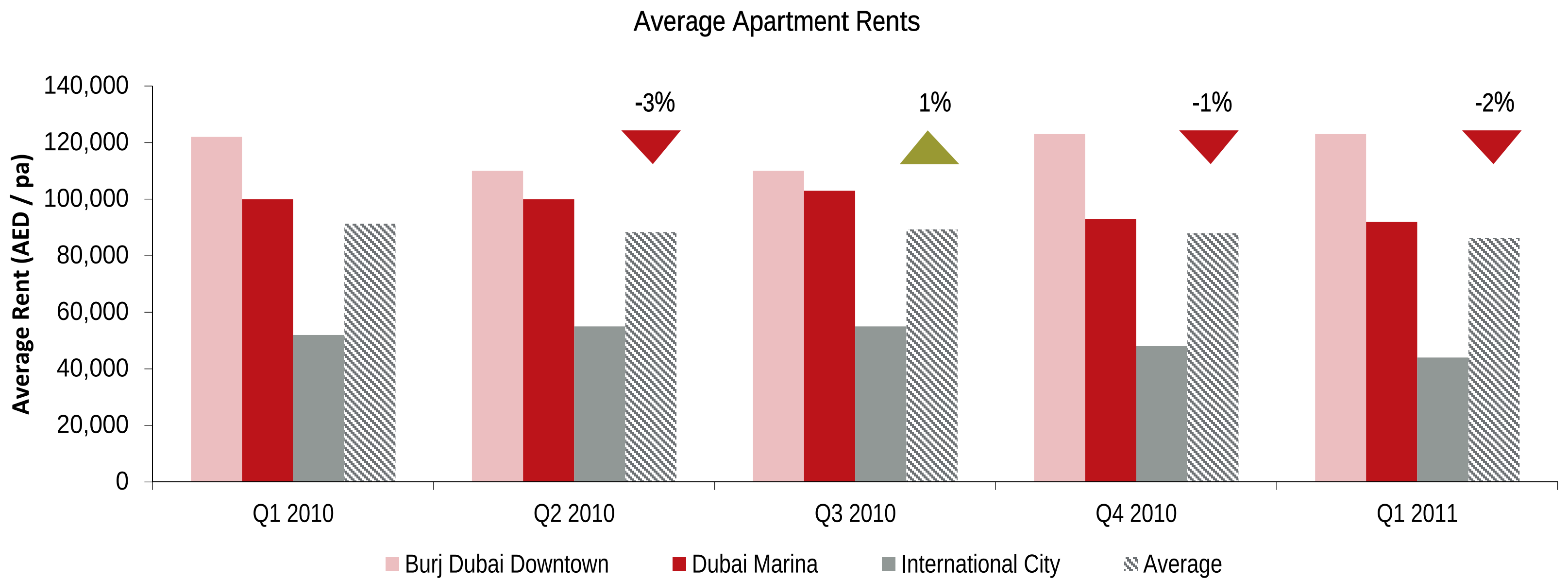
Rental Performance – Apartments

Low to mid-end apartment rents continue to decrease

- Q-o-Q decrease of 2% from Q4 2010 to Q1 2011.
- Y-o-Y decrease of 5% from Q1 2010 to Q1 2011.

- Over Q1 2011, rents in International City and the lower end apartments within Dubai Marina continue to dropped at a higher rate than the higher-end apartments in Burj Khalifa Downtown and Palm Jumeirah.



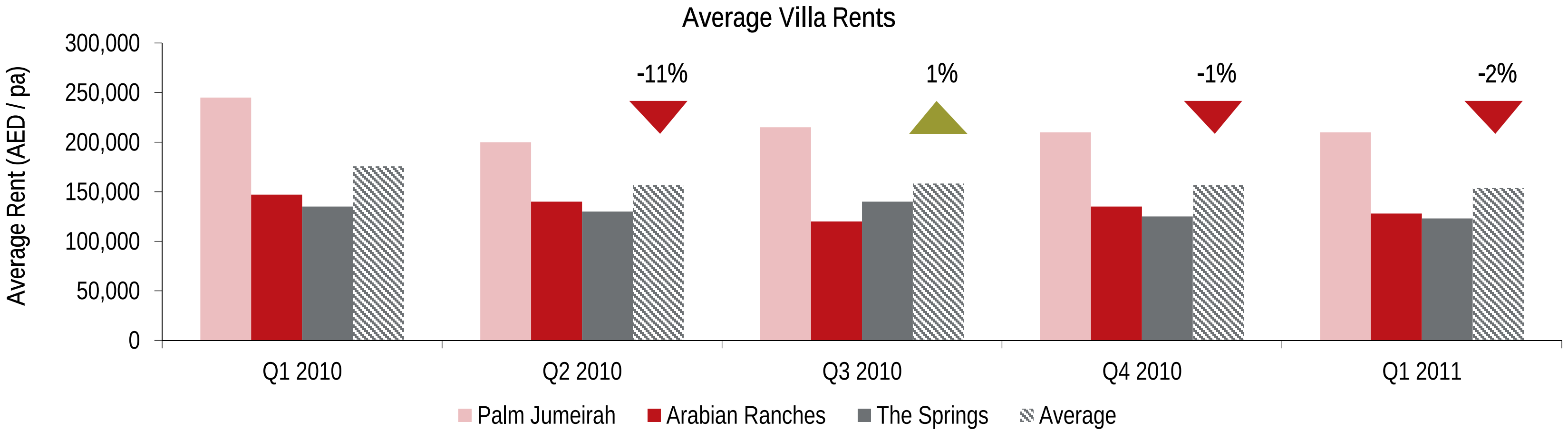
* Rents reflect typical 2 bedroom apartments
Source: Jones Lang LaSalle, Q1 2011

Rental Performance – Villas

Mid to high-end villa rents remain stable

- Villa rents declined by 2% in Q1 2011, slightly more than the previous quarter as more landlords adjusted rents to compete with lower apartments rents.
- Y-o-Y decrease of 12% from Q1 2010 to Q1 2011.

- Rents for high end villas on Palm Jumeirah have remained relatively stable while rents in The Springs and Arabian Ranches have declined more in Q1 2011. This trend is expected to continue over the remainder of 2011 as more mid range villas will be handed over in the Jumeirah Village and Jumeirah Park areas. Landlords in this this segment are also more inclined to lower rents to keep their property tenanted to help pay for their mortgage obligations.



* Rents reflect typical 3 bedroom villas
Source: Jones Lang LaSalle, Q1 2011

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Residential Market Summary

Indicator	Level	Comment / Outlook
Current Residential Stock	317,200 units	79% Apartment, 21% Villas
Future Supply (2011–2012)	28,700 additional units	Construction delays and cancellations by RERA could reduce this figure.
Average 2 Bed Apartment Rent	AED 83,000 p.a.	Apartment rents expected to decline in 2011 due to new supply
Average 2 Bed Apartment Sale Price	AED 415 – 1,500 / sq ft	While range is expected to remain stable, average price within the range will fall further in 2011.
Average 3 Bed Villa Rent	AED 150,000 p.a.	Rents to remain stable in 2011 but could decline further in 2012 due to significant levels of new supply.
Average 3 Bed Villa Sale Price	AED 650 – 1,300 / sq ft	While range is expected to remain stable, average price within the range will fall further in 2011.

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Dubai *Retail* Market Overview

Key Takeaways – Retail Market

Supply

- As of Q1 2011, total retail supply across Dubai was approximately 26.5 million square feet (GLA) with around 530,000 square feet of new additions to stock recorded in the last quarter.
- No new major mall supply is expected to be released until 2013 with the opening of the first phase of Mall of Arabia in Dubailand.
- Super regional and regional malls currently account for 81% of total mall based retail space.

Demand

- While there has been no sales or turnover data released, anecdotal evidence from credit card sales and centre footfall suggests the retail sector received a major boost from the Dubai Shopping Festival held in January / February 2011
- Retailers have generally become more cautious in their expansion plans but some continue to explore new business opportunities.
- Retailers are benefitting from a greater choice of possible locations. Factors influencing their choice of outlets include the location and positioning of malls, store location and adjacencies.
- The value priced retail sector continues to grow in the local market.

Performance

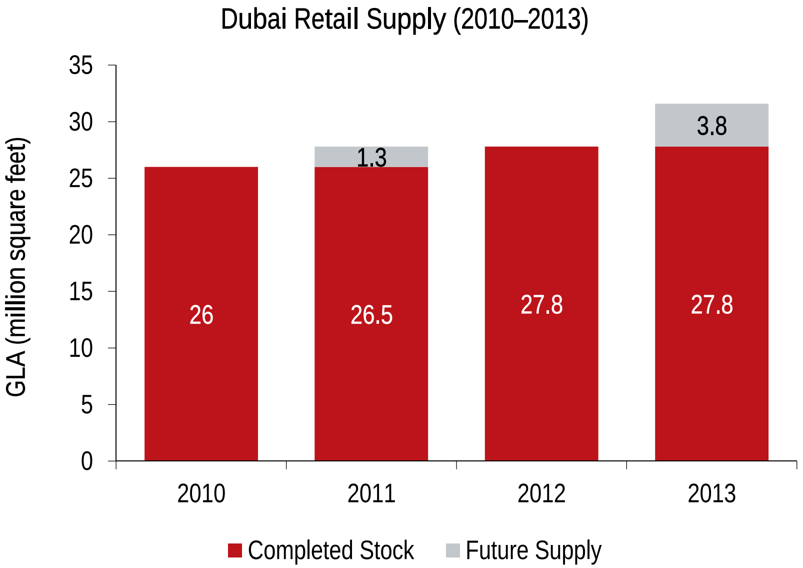
- Average estimated rental values (ERV)s declined by 9% to AED 175 per sq ft over Q1 2011. The greatest fall has been experienced in older and poorer performing centres.
- Vacancies across existing malls have remained largely unchanged over Q1 2011, and range from 15% - 30% with vacancies being well disguised in most retail environments.

Outlook

- Retailers are able to negotiate more effective lease deals. Stepped rental rates and greater incentives for new outlets are now available in the market.
- In order to attract new retailers, more landlords are likely to offer mutually beneficial deals with rentals based on centre footfall, sales or consumption numbers.
- Retail environments catering to the requirements of the local community are expected to perform well.
- The key ingredients of the success of these centres will be good access, ample parking and a strong tenant mix of retailers targeting the needs of local community.

Retail Mall Supply

- Approximately 530,000 square feet of retail space was completed in Q1 2011, bringing the total retail supply across Dubai to approximately 26.5 million square feet. Completions included retail space in Index, Limestone House and Currency House in DIFC and Bay Avenue in Business Bay.
- Total retail supply is expected to reach around 28 million sq ft by the end of 2011, with the completion of a number of small centres and additions to existing malls.
- No new major mall supply is expected until 2013 with the expected opening of the much delayed first phase of the Mall of Arabia.

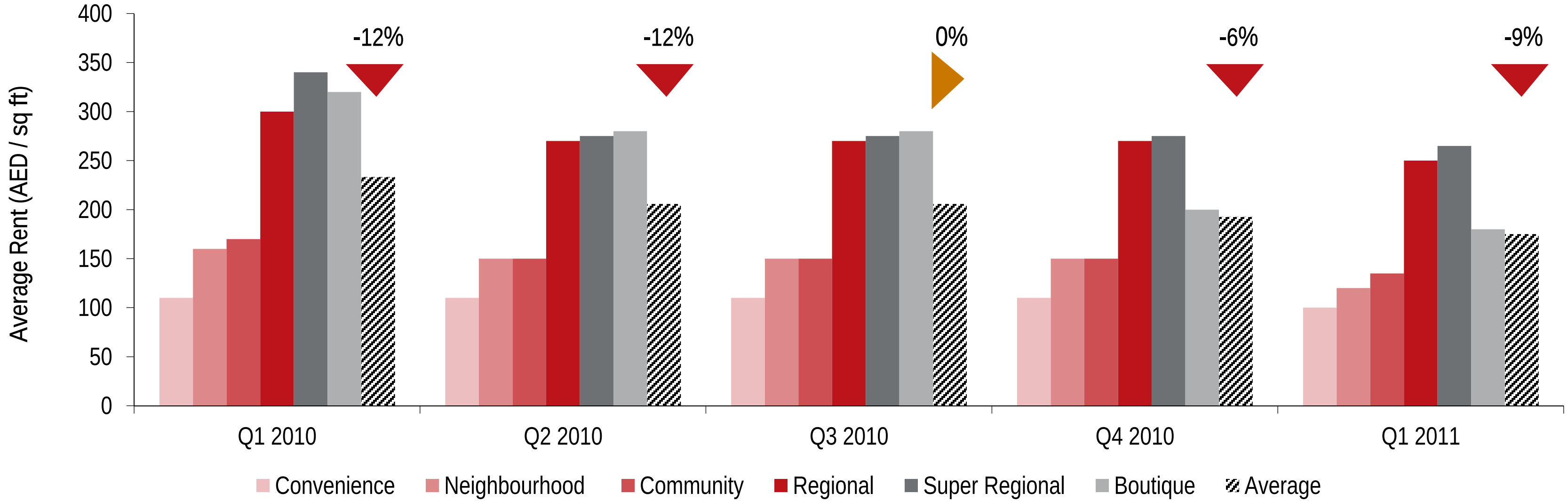


Source: Jones Lang LaSalle, Q1 2011

Rental Performance – Estimated Rental Value (ERV)

- Average ERV's declined by 9% in Q1 2011 to AED 175 per sq ft, with a decrease in rentals recorded across all types of retail centre. Older and poorer performing centres experienced the greatest decline, with ERV's being maintained at 2010 levels for new leases in the better performing centres.
- Rents in regional and super regional mall are typically 30% to 40% higher than average rents across all mall categories.

Dubai Retail – Estimated Rental Value (ERV)



Source: Jones Lang LaSalle, Q1 2011

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Retail Sector Summary

Indicator	Level	Comment / Outlook
Current Retail Space (GLA)	26.5 million sq ft	No new major mall supply is expected to be released until 2013.
Future Supply (2011–2013)	5.5 million sq ft	Next major mall (Mall of Arabia) not expected to open until 2013.
Average Estimated Rental Value	AED 175 / sq ft	
Average Regional Mall Vacancy	20%	

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Dubai *Hospitality* Market Overview

Key Takeaways – Hospitality Market

Supply

- The total hotel room supply in Dubai as at Q1 2011 is 51,200 rooms, reflecting an increase of 2% from Q4 2010.
- Main additions to the hotel supply this quarter include Movenpick Hotel Deira, Ritz Carlton DIFC and Jumeirah Zabeel Saray.
- The majority of additions for the remainder of 2011 comprise hotels in the upscale and upper upscale segment of the market.

Demand

- Dubai witnessed a 10% increase in tourist arrivals in 2010 receiving 8.6 million visitors, compared to 7.8 million in 2009.
- According to DTCM 26 million guest nights were registered during 2010 reflecting an average length of stay of about 3 nights.
- Hotel Apartment guests increased 17%, while hotel guests (which account for 75% of the total market) grew by 7%.
- The Dubai hotel market has benefitted from demand being diverted from other MENA locations that have experienced political turmoil and security concerns during Q1 2011.

Performance

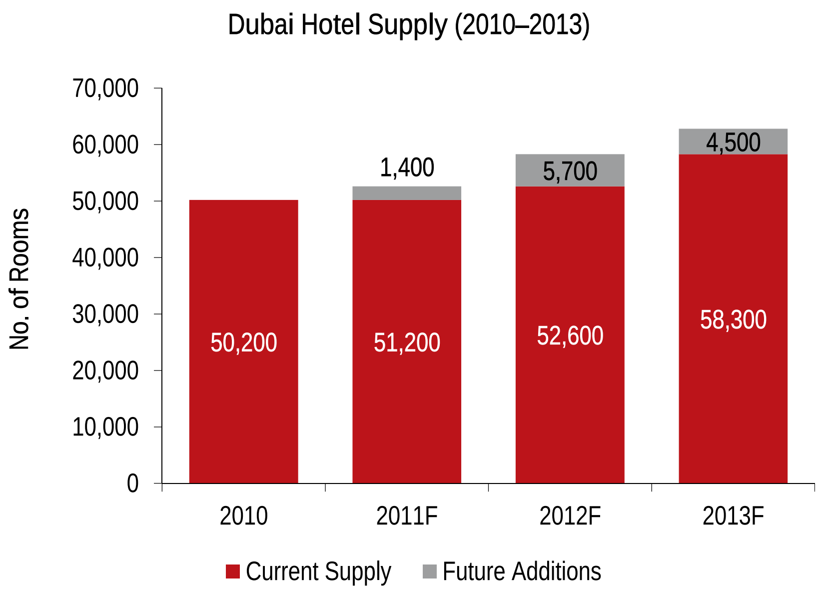
- Occupancy levels for the first two months of 2011 have increased to 82%.
- Average Daily Rates (ADR) continue to be depressed, with a contraction of 3% YTD 2011, compared to the same period last year.
- Higher occupancies and lower room rates have offset each other, resulting in unchanged RevPAR levels over the first two months of 2011.

Outlook

- The upward trend in tourist arrivals is expected to continue throughout 2011, providing the UAE is able to maintain its current position as a relative safe haven within a volatile region.
- Increased hotel night demand will offset the impact of additional supply in 2011, resulting in a stabilisation of occupancy levels in the Dubai market.
- Construction delays are expected to reduce the future supply pipeline below levels previously envisaged, allowing for a smoother absorption of those rooms that are completed in 2011 / 2012.
- Performance of established beach hotels expected to stabilise in 2011, with further downward pressure on ADRs and RevPAR for newly opened city hotels.

Hotel Supply

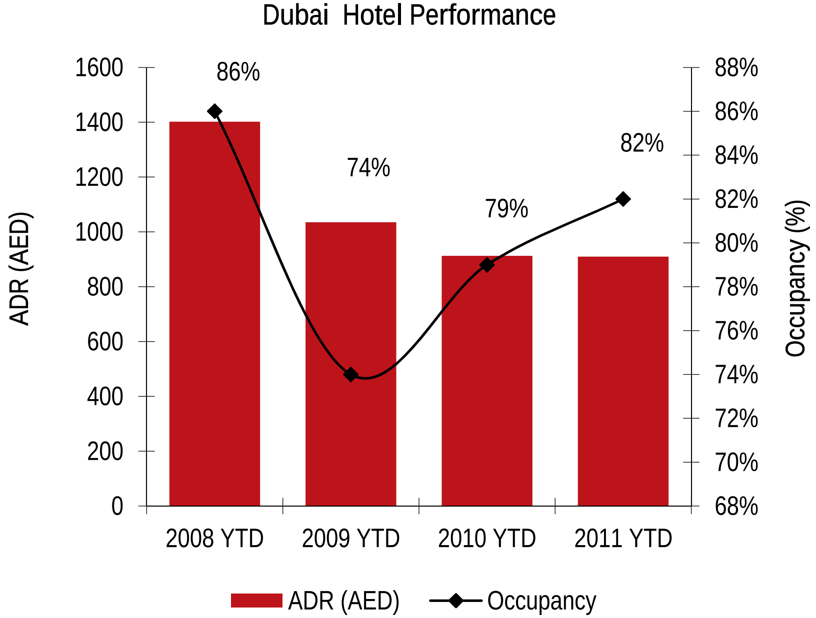
- At the end of Q1 2011 the total branded hotel supply in Dubai stands at around 51,200 rooms.
- This quarter witnessed the addition of 967 branded hotel rooms in Dubai comprising of the Movenpick Hotel Deira, Ritz Carlton DIFC and Jumeirah Zabeel Saray.
- There are approximately 12,500 additional guest rooms expected to be completed by 2013. Major openings expected in 2011 include Taj Exotica Resort & Spa and Royal Amwaj in Palm Jumeirah and Ramada Plaza JBR.



Source: Jones Lang LaSalle Hotels, Q1 2011

Trading Performance

- Occupancy rates for quality hotels in Dubai during the months of January & February fell from 86% at their peak in 2008 to 74% in 2009.
- Occupancy rates for the first two months then edged upwards in 2010 and this improvement has been maintained in 2011 with YTD occupancies of 82%. Average occupancies were higher still in Feb (at 87%) a 1% increase over the same month in 2010.
- While occupancy levels have risen in the first two months of 2011, average rates have continued to decline YTD ADRs for 2011 averaged AED 910, a 3% contraction from 2010.
- With increased occupancies being offset by lower ADRs, RevPAR levels have remained stable over 2011 YTD registered a marginal increase of 1% over the same period in 2010.



Source: STR Benchmark

Hotel Market Summary

Indicator Q1	Level	Comment / Outlook
Current Hotel Supply	51,185 rooms	The main hotel openings that marked Q1 2011 are Movenpick Hotel Deira, Ritz Carlton DIFC and Jumeirah Zabeel Saray.
Future Supply (2011–2013)	12,561 units	Delays continue to impact the completion and opening of hotel properties. Several projects intended to open in 2011 have been pushed to 2012 / 2013. Some developers have decided to mothball their properties in the light of the current over supply situation such as the Kempinski on Palm Jumeirah.
2011 YTD Occupancy	82%	Increase in YTD levels of occupancy. City hotels registered higher occupancies albeit at a much lower rate than for beach hotels.
2011 YTD ADR	AED 910	While established beach hotels should see stable performance in 2011, continued downward pressure on city hotels and new additions to the market.

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