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# *Dubai* Real Estate Market Overview Q2 2011



# Market Highlights – Q2 2011

- The **investment market** continues to polarize, with most interest coming from private rather than institutional investors. Jones Lang LaSalle's recent Investors Sentiment Survey (ISS), confirms there are more buyers than sellers active in the Dubai market. Activity levels remain minimal due to the lack of good quality product with strong tenant covenant, thus there have been few significant sales in the Dubai market during Q2.
- Despite minimal new supply handovers in the **office market** in Q2, conditions remain heavily in favour of tenants. Vacancies remained unchanged compared to previous levels (44% Citywide and 27% in the CBD), providing a wide range of choice for occupiers and strengthening their position in lease negotiations with landlords.
- **Prime office rents** also remained stable over the past two quarters at AED 1,615 per square metre, but this is likely to be a temporary position as further declines are expected once new supply deliveries occur later in 2011.
- The **Arab Spring** has not yet spurred significant new demand for office space in Dubai. However, the regional turmoil has already had a positive impact on Dubai's hotel, retail and residential sectors.
- **Residential sector** performance diverges as some assets experience selective stability. In Q2, sale prices and rents increased marginally in select upper end established villa communities such as Palm Jumeirah and Arabian Ranches.
- The majority of the **residential market** (apartments and mid market villas) continued to see sale price and rent declines. Landlords are becoming increasingly flexible, with the more widespread use of rent free periods (13 or 14 months for the price of 12) and other inducements including payment of tenant's air conditioning charges and flexibility on the number of rent cheques required.
- **Retail mall** rentals have remained unchanged over the past quarter, with the increase in tourist arrivals and the lack of new supply contributing to stability. Since many retailers expect better business in the third quarter, we anticipate that rental levels will remain roughly stable over coming months, marking the bottom of the current retail mall rental cycle.
- **Hotels** continue to experience improved performance as tourist arrivals increased in the first four months of the year. All three performance indicators, (ADR, RevPAR and occupancy) improved compared to the same period of 2010, marking the bottom of the cycle and indicating that the hotel sector is now in the process of a cyclical upswing.

# Market Milestones – Q2 2011

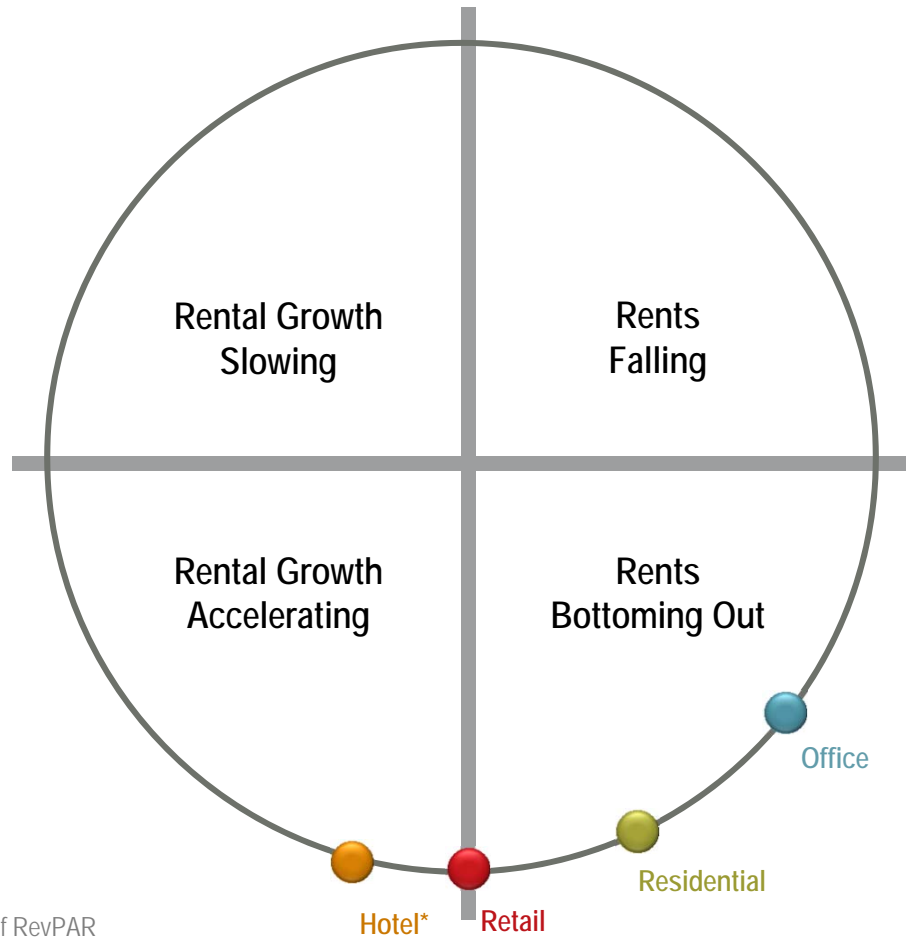
## Economic News

- In Q2, positive economic news continued, with the Dubai Chamber of Commerce estimating real GDP growth of 5% in 2011, compared to 2.2% in 2010.
- A major driver of growth was trade and logistics, with the value of exports growing strongly (48%) in the year to March 2011.
- Dubai Government has successfully launched a new US\$ 500 million bond issue at a coupon rate of 5.59%. This issue was 3.5 times over subscribed. The relatively low coupon rate is an indication that investors are gaining confidence in the Dubai government's ability to manage its debt issues.
- The bond prospectus revealed Dubai's real GDP in 2010 was \$79bn, contributing 30% to the UAE's total GDP last year.
- The real estate sector continues to lag the overall economic recovery, declining by 2.6% in value in 2010, following a much greater fall of 19.8% in 2009. Real estate's contribution to the emirate GDP's declined from 17.9% in 2009 to 13.7% in 2010.
- Although business licenses issued by DED have risen, they are still below pre-crisis level. Registered companies in DIFC also saw a decline from 859 in 2009 to 792 in 2010.

## Property & Project News

- The UAE Federal Government has announced its intention to grant property investors a three year residency visa. No other conditions were mentioned in the June 28<sup>th</sup> announcement, with the details expected to be clarified in the coming weeks. Although this is good news for the Dubai property market, it is just one of a number of steps required for the residential market to experience a sustained recovery.
- Nakheel has reached a settlement with 98% of its creditors and has announced the continuation of a number of large scale projects such as Jumeirah Golf Estates and Al Furjan.
- Limitless, a company owned by Dubai World, announced that they will resume work on the residential towers of the Galleries project in Downtown Jebel Ali.
- Dubai Municipality has eased the regulatory requirements for developers to complete projects to allow for speedier completion of buildings. This will result in reduced costs and red tape for developers.
- RERA has announced that a total of 217 registered projects have been cancelled as of 31 May 2011, representing a welcome reduction in the future supply pipeline.

# Dubai Rental Clock – Q2 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

- At the end of Q2 2011, total office stock is approximately 5.6 million sq m.\*
- No significant supply was added in Q2 2011.
- Around 0.6 million sq m of office space is anticipated to be completed in 2011. However, ongoing project delays will likely reduce the total annual supply handovers.

## Demand

- The political and social instability in other MENA countries is yet to convert into higher take up of office space in Dubai. Over the medium term, we expect a nominally positive impact on demand, but it is insufficient to offset the growing supply.
- Jones Lang LaSalle is aware of active tenant demand totalling approximately 0.2 million sq m.
- 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 units or space in less established locations.

## Performance

- City-wide vacancy rates have remained stable at 44%, but are expected to surpass 50% over the next year subsequent to new supply handovers.
- In Q2, CBD single ownership stock vacancy rates have also remained unchanged (at around 27%).
- Prime office rents remained largely unchanged in Q2. CBD rents are at AED 1,615 per sq m, but rents for secondary space (based on quality or location) have continued to decline.
- Office capital values have declined by 16% Y-o-Y, with a Q-o-Q decrease of 1% to approximately AED 11,120 per sq m.

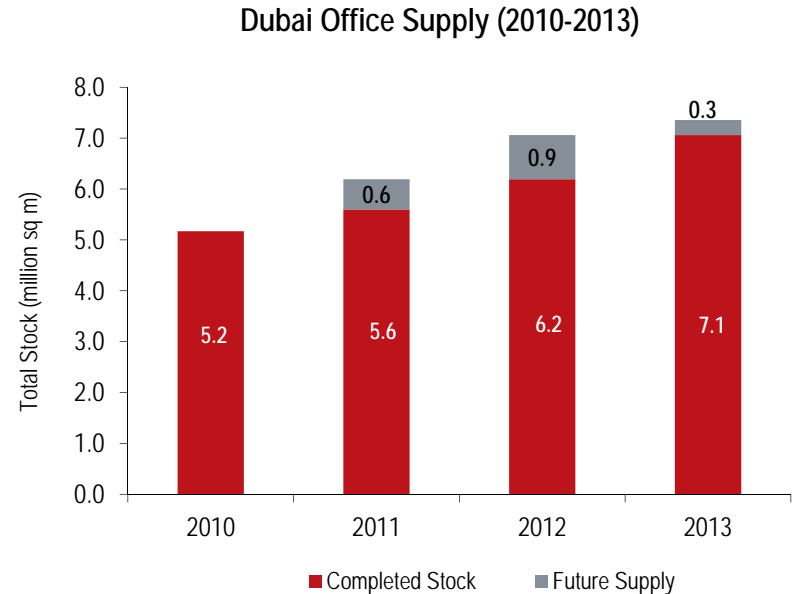
## Outlook

- Conditions in the Dubai office market continue to favour tenants, who enjoy a wide range of choices at increasingly competitive rents. In most locations, average rents are likely to decline further over the second half of 2011.
- Although we have revised our 3-year supply pipeline down (to around 1.8 million sq m), this is still too much space for the market to absorb in the short term.
- The continued growth of Dubai's economy is a positive sign that implies employment growth and potentially expanding demand for office space in Dubai in 2012, but this growth is unlikely to match the increased level of new supply entering the market.

\*Note: In line with the Dubai Government's announcement that all data on the real estate market is to be quoted in sq m from November 2011, we have changed the unit of measurement used for this report from square feet to square metres. (1 sq m = 10.76 sq ft)

# Office Supply

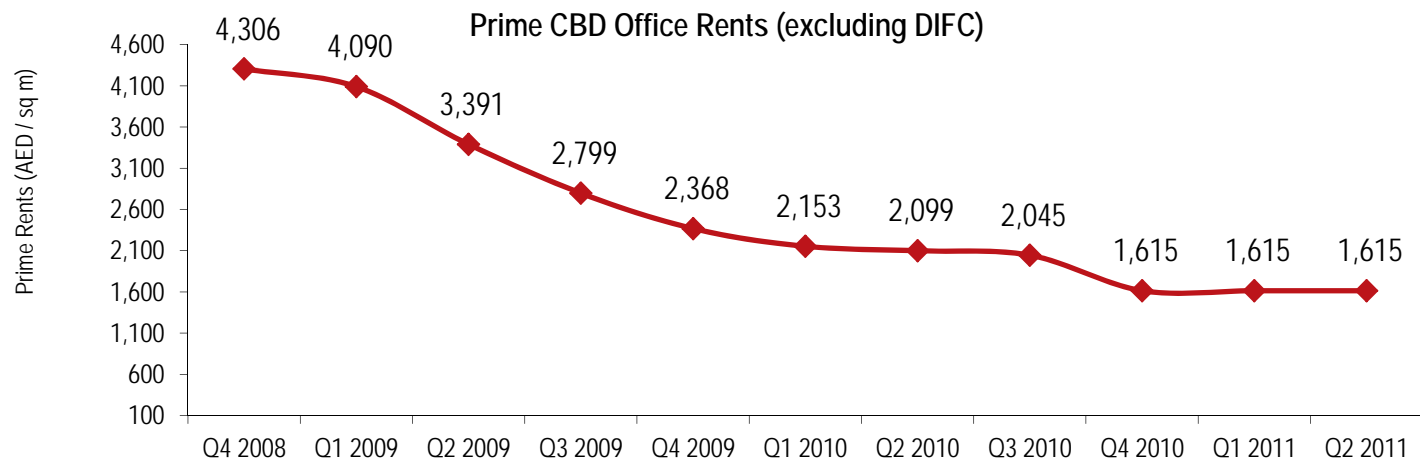
- Total city-wide office stock as at the end of Q2 2011 is approximately 5.6 million sq m. There were no significant additions to office supply over the past quarter.
- With many developers experiencing cash flow problems and the failure of master developers to provide infrastructure in many areas, we have decreased our estimate of future office supply over the next three years (to around 1.8 million sq m). This is in line with RERA's announcement that further commercial projects have been declared cancelled.
- A total of around 600,000 sq m of office space is expected to complete over the second half of 2011, bringing total stock to around 6.2 million sq m. Among the major completions are Arady Tower (formerly Central Park) within the DIFC (130,000 sq m), Boulevard Towers in Burj Khalifa Downtown (36,000 sq m) and Marina Plaza in the Dubai Marina (60,000 sq m).
- The future supply pipeline for 2012 and 2013 (totaling 1.2 million sq m) could be reduced as developers continue to manage construction progress within a tight cash flow environment.



Source: Jones Lang LaSalle, Q2 2011

# Rental Performance



- Average prime office rents have stabilized over the past six months. Average prime rents in the CBD (excluding DIFC) remain unchanged in Q2 2011 at AED 1,615 per sq m.
- Rents for poorer quality buildings and those in secondary locations have continued to decline in the face of increased competition and limited tenant demand. This has resulted in a marked movement of the secondary market in favour of tenants.
- With no significant supply delivered in Q2, vacancy rates remain stable with Citywide vacancies of 44% and vacancies in single ownership CBD properties remaining at 27%.
- In the short term (remainder of 2011), rentals are likely to face further downward pressure as supply continues to outstrip demand.



Source: Jones Lang LaSalle, Q2 2011



# Office Market Summary

Indicator	Level	Comment / Outlook
Current Office Stock	5.6 million sq m	Includes all grades. Limited supply of around 0.9 million sq m of single ownership space in the CBD.
Future Supply (2011–2013)	1.8 million sq m	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 1,615 / sq m AED 1,130 / sq m	
Average Sale Price	AED 11,120 / sq m	Limited transactional evidence. Asking prices down by 64% from peak.



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# Dubai *Residential* Market Overview



# Key Takeaways – Residential Market

## Supply

- In Q2 2011, approximately 2,000 units were completed, bringing the total residential stock to around 322,000 units.
- An additional 18,000 units are expected to be completed in Q3-Q4 2011. While we have reduced our supply pipeline, it is still expected that completions will be higher than the 10,000 units that RERA expect to be completed over the second half of 2011.
- Of the previously stalled projects that have recently recommenced construction, few are likely to be completed in 2011, but this could increase supply in 2012 and 2013.
- RERA has announced the cancelation of 217 projects, but have not released the list of these projects making it difficult to accurately assess the impact on 2012 and 2013 supply.

## Demand

- In Q2, anecdotal evidence suggests increased sales activity in some areas of Dubai's residential market, but there is little conclusive supporting evidence.
- Easing of lending conditions combined with political unrest in other areas of MENA contribute to stronger demand for villas in well establish communities.
- The recently announced 3 year residency visa for property investors will support demand, but the full impact is difficult to assess until more details are provided.
- Figures released by Reidin suggest the total value of residential transactions increased by 69% in Q2 2011 compared to the same period in Q1 2010, but this data probably overstates actual market activity.

## Performance

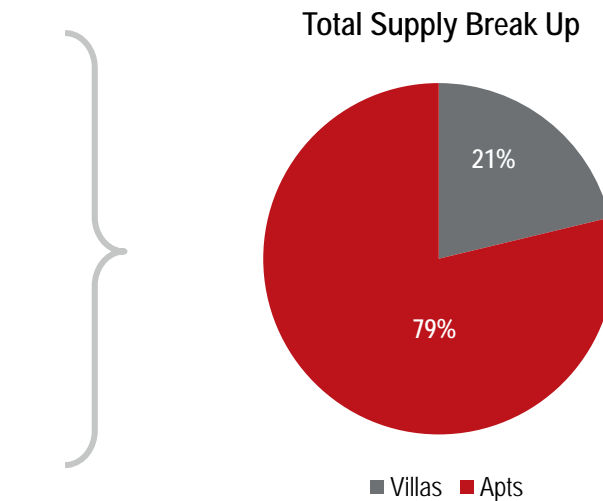
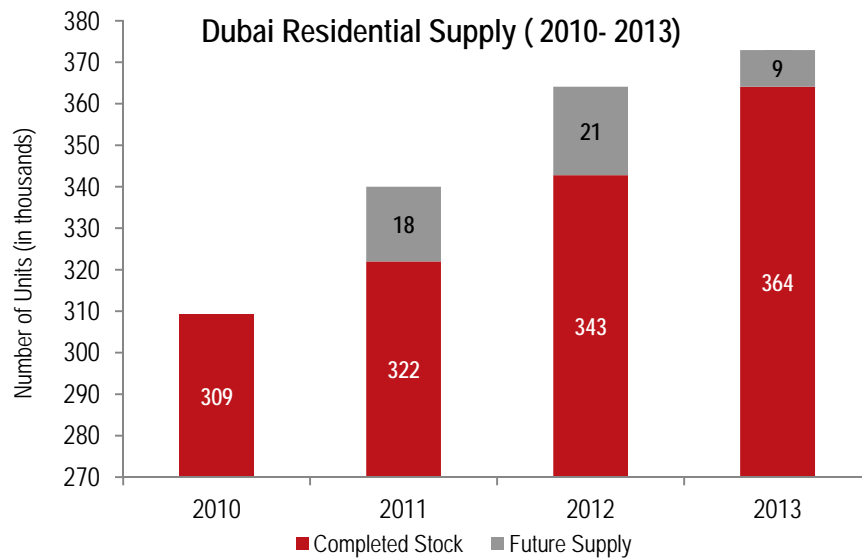
- Average apartment rents continued to decline (by 3% Y-o-Y and 1% Q-o-Q), with the greatest decline in the lower end segment.
- Average villa rents registered a Q-o-Q increase of 4%, a trend led by stronger supply-demand dynamics in higher-end, well established villa communities such as Palm Jumeirah and Arabian Ranches.
- In Q2, average asking prices for apartments decreased 5% to AED 9,989 per square metre. Average achieved prices for apartment decreased by less (around 1%) to AED 8,234 per sq m.
- Asking prices for villas have risen slightly and achieved prices have increased around 3% to AED 9,257 per sq m.

## Outlook

- Although rents in some more established villa communities witnessed a small increase this quarter, we do not expect this to filter through to the wider market. Additional rent increases are not expected over the traditionally quieter summer months.
- General market rents are likely to continue their downward trend, especially for apartment units, as new units enter the market in both Dubai and Abu Dhabi over the second half of 2011.
- Although average asking rents have not decreased significantly this quarter, landlords are becoming increasingly flexible by offering 1 or 2 months rent free on an annual lease in less established areas of Dubai. Some are also offering free air conditioning, further reducing tenant occupancy cost.

# Current & Future Residential Supply

- In Q2 2011, approximately 2,000 units were completed in various projects across Dubai, bringing the total current residential stock to around 322,000 units. The largest completions were Mayfair Residency in Business Bay and Silverene Towers (1 and 2) in the Marina.
- A further 18,000 units are expected to be completed by end 2011, bringing the total residential stock to approximately 343,000 as at the end of 2011. The largest additions to supply over the rest of the year are Princes Tower (770 units) in the Marina and around 1,500 units in Jumeirah Village.
- Liquidity is slowly flowing back into the construction industry. In addition to Nakheel announcing that they will be restarting a few major projects in the coming months, a number of residential projects by single owners have also recommenced their construction programs over the past two quarters. This is especially notable in the stretch of Emirates Road between Dubailand and Al Warqa.



Source: Jones Lang LaSalle, Q2 2011



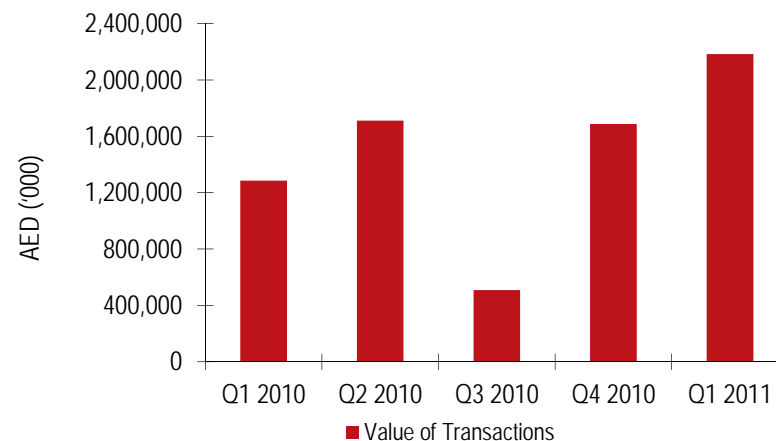
# Residential Sale Transactions

- In Q2, anecdotal evidence from brokers and mortgage providers suggests there has been a pick up in sales activity levels in some sectors of the residential market, but this is difficult to validate with firm numbers as there is no reliable data on sales activity for Dubai.
- Data released by Reidin suggests the value of transactions increased by 69% compared to the same period in 2010, while the number of transactions has increased by 22%.
- However, this data is not an accurate reflection of current market trends because it records the date of project registration rather than transaction date. The data can, therefore, include historic sales only now being registered at the Dubai Land Department. The data also includes land sales, which may have skewed the total transaction value in Q2.

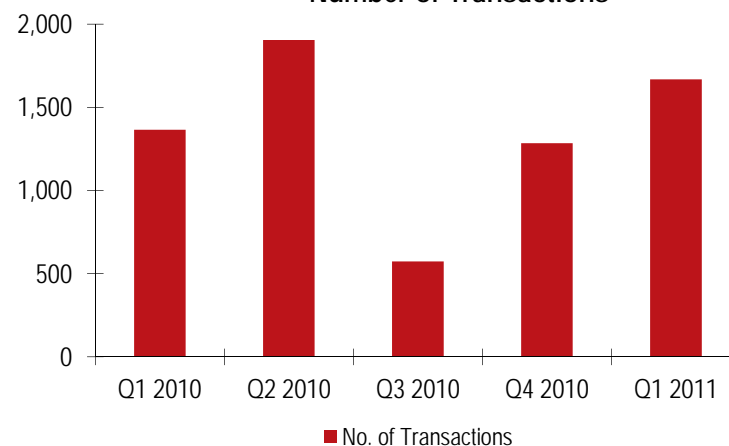
Q1 2010 – Q1 2011 Change		
Value of Transactions	69%	↗
Number of Transactions	22%	↗

Source: Reidin

Value of Transactions



Number of Transactions



# Residential Sale Prices

- In Q2, average asking prices for apartments decreased by 5% to AED 9,988 per sq m, after remaining relatively stable over the last three quarters. The average achieved price for apartments decreased somewhat less (by 1%) to around AED 8,234 per sq m.
- The gap between asking price and achieved price for apartments has therefore narrowed slightly but remains above 20%.
- In Q2, the average achieved price for villas increased by 3% to AED 9,257 per sq m, while asking prices have also risen slightly. The gap between asking and achieved prices is unchanged at around 6%. The rise in villa prices is driven by higher end villas in established communities such as Palm Jumeirah and Arabian Ranches.
- In well established locations, demand increased for both villas and apartments in Q2. Market professionals reported increased interest from the MENA region, suggesting the political turmoil is having a positive impact on the property market in Dubai.



Source: Reidin.com, Jones Lang LaSalle, Q2 2011

Note: Asking Prices are based on Jones Lang LaSalle's basket of properties

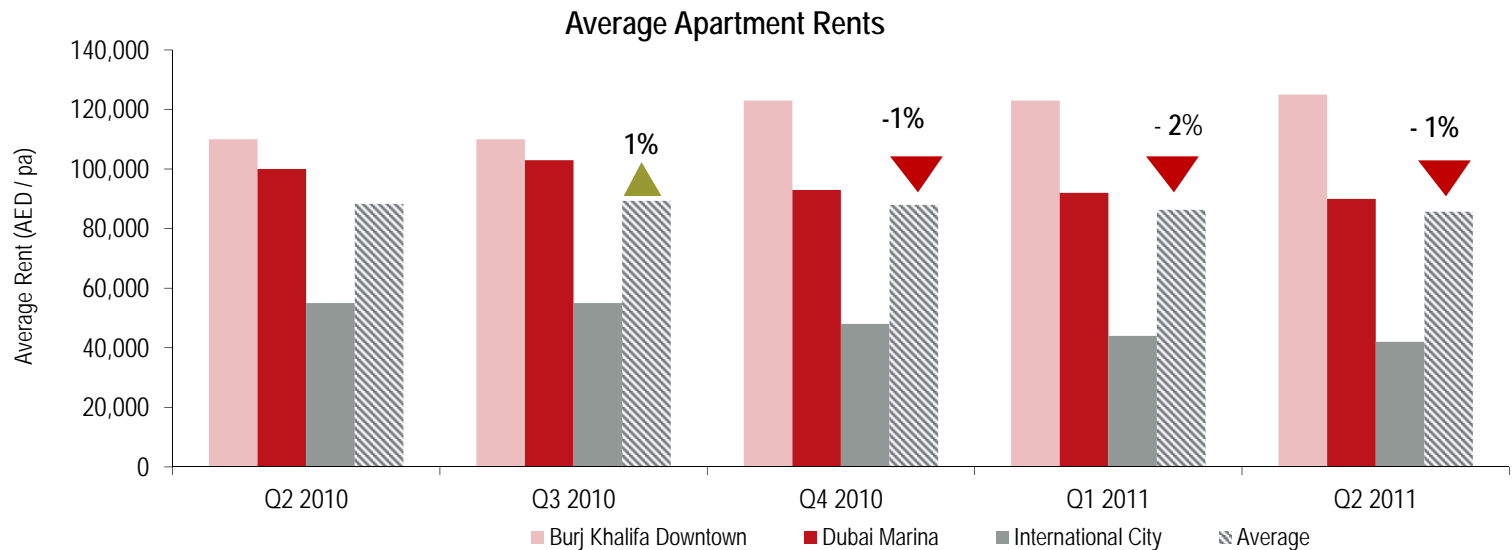


Source: Reidin.com, Jones Lang LaSalle, Q2 2011

# Rental Performance – Apartments

## Low to mid-end apartment rents continue to decrease

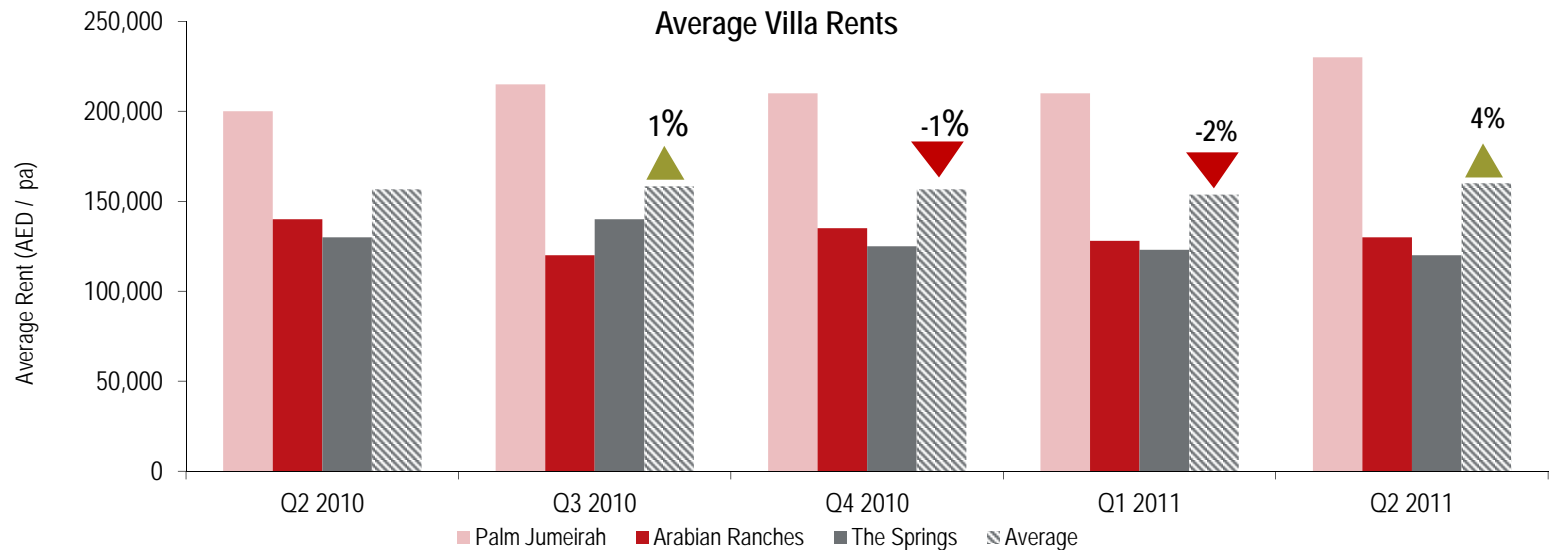
- Q-o-Q decrease of 1% from Q1 2011 to Q2 2011.
- Y-o-Y decrease of 3% from Q2 2010 to Q2 2011.
- Over Q2 2011, rents in the more establish areas of Burj Khalifa Downtown and Palm Jumeirah have stabilized with some landlords even attempting to increase asking rents.
- In other locations, apartment rents are still declining. Landlords are trying to disguise rental declines by offering rent free periods (13 or 14 months for the price of 12) and free air conditioning, rather than dropping asking rentals.



# Rental Performance – Villas

## Increase in high-end villa rents





- Villa rents increased by 4% in Q4 2011, mainly due to increased prices in established high end areas such as Palm Jumeirah and Arabian Ranches.
- Y-o-Y decrease of 2% from Q2 2010 to Q2 2011.
- The increase in villa rents is due to limited new supply in the more established high end areas.
- The expected delivery of more mid market villa developments in the later part of 2011 and throughout 2012, is expected to result in a further softening of rents for mid range villas in the later part of 2011.



Source: Jones Lang LaSalle, Q2 2011



# Residential Market Summary

Indicator	Level	Comment / Outlook
Current Residential Stock	322,000 units	79% Apartments, 21% Villas
Future Supply (remaining of 2011)	18,000 additional units	Construction delays could reduce this figure.
Average 2 Bed Apartment Rent	AED 81,000 p.a.	In the second half of 2011, apartment rents expected to decline due to new supply 
Average 2 Bed Apartment Sale Price	AED 4,400 – 15,600 / sq m	While range is expected to remain stable, average price within the range will fall further in 2011. 
Average 3 Bed Villa Rent	AED 160,000 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 7,000 – 15,100 / sq m	Prices expected to remain stable or increase slightly in well establish areas. Average prices in the less established areas are expected to continue to fall in H2 2011. 



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# Dubai *Retail* Market Overview



# Key Takeaways – Retail Market

## Supply

- There was no new supply in the market over the past quarter.
- Total stock within retail malls remains at 2.5 million sq m (GLA).
- No major new malls are expected to be released until 2014 at the earliest.
- Super regional and regional malls currently account for 81% of total mall based retail space.

## Demand

- Although there has been no recent data released on total retail spend, airport arrival numbers and the high hotel occupancy rates suggest the retail sector has performed relatively well compared to the same period in 2010. Many retailers are expecting 2011 sales to exceed those of 2010.
- 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.

## Performance

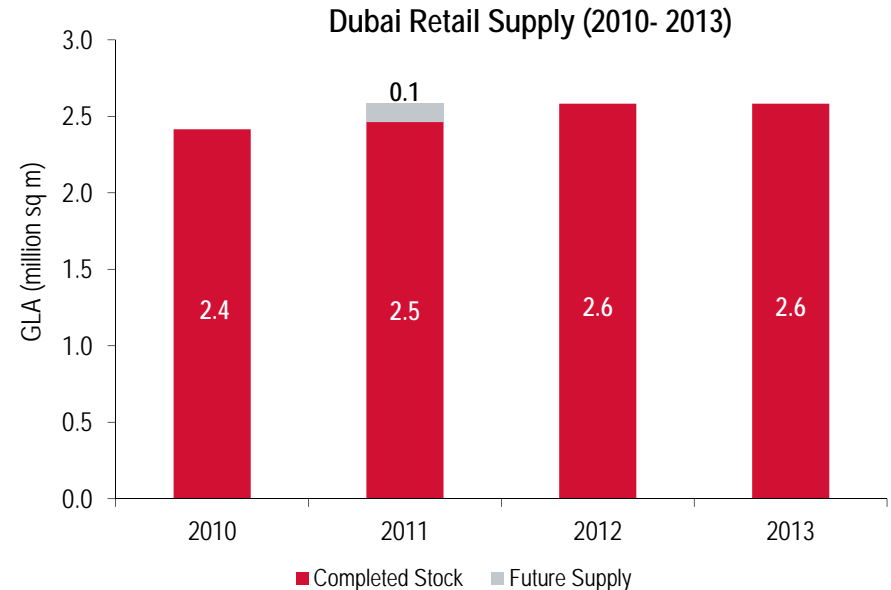
- Average estimated rental values (ERVs) remained unchanged at AED 1,885 per sq m over Q2 2011. This indicates that the retail market is entering a period of stability after seeing rents decline over the past year.
- In Q2 2011, vacancies within existing malls have remained largely unchanged ranging from 15% - 30%.

## Outlook

- Retailers are able to negotiate more effective lease deals. Stepped rental rates and greater incentives for new outlets are now widely available in second tier malls.
- In order to attract new retailers, more landlords are offering mutually beneficial terms 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 success of these centres will be determined by good access, ample parking and a strong tenant mix of retailers targeting the needs of local community.

# Retail Mall Supply

- No significant retail mall space was completed in Dubai in Q2 2011. Total mall based retail supply across Dubai, therefore, remains at approximately 2.5 million square meters.
- Total retail supply is expected to reach around 2.58 million square meters by the end of 2011, with the completion of a number of small centres and additions to existing malls.
- No major new retail malls are expected to complete until 2014 at the earliest.

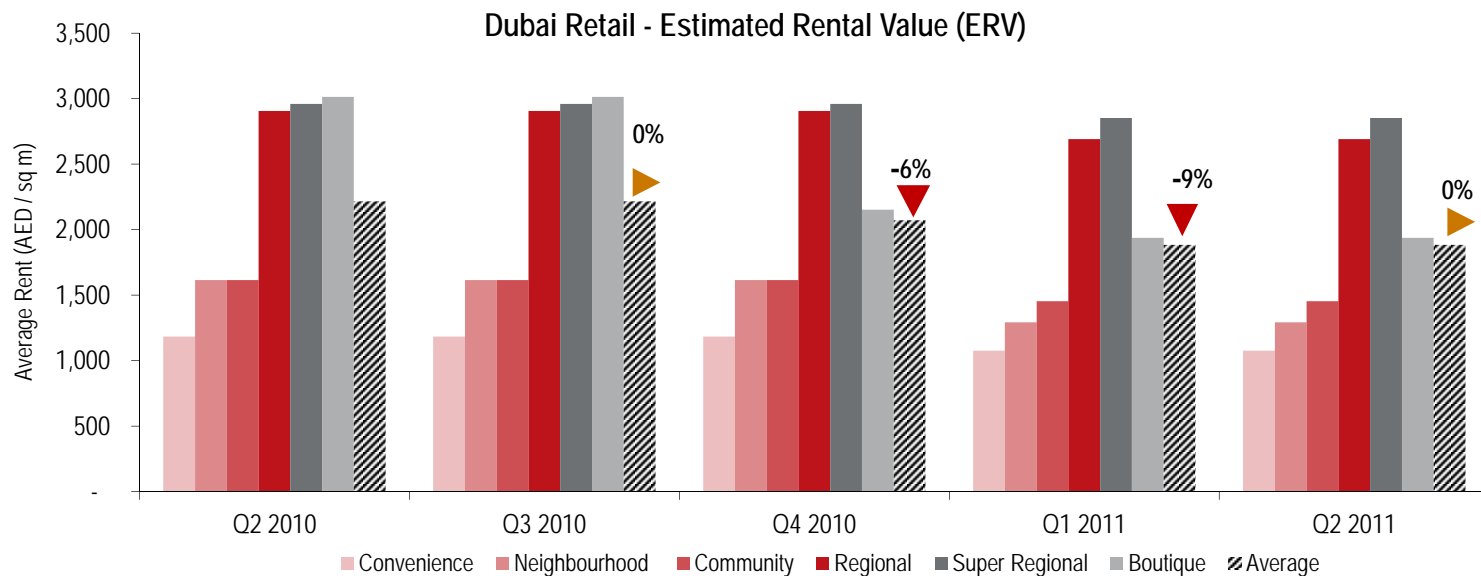


Source: Jones Lang LaSalle, Q2 2011





# Rental Performance – Estimated Rental Value (ERV)

- Average ERVs remained largely unchanged in Q2 2011 at AED 1,885 per sq m.
- The lack of new supply and higher tourist numbers have helped stabilize ERVs over the past quarter.
- Rental levels in regional and super regional malls are typically 30% to 40% higher than average rents across all mall categories.
- There is an increased rent differential between better performing centres (where rents remain stable) and poorer performing centres (where rents continue to decline).



Source: Jones Lang LaSalle, Q2 2011

# Retail Sector Summary

Indicator	Level	Comment / Outlook
Current Retail Space (GLA)	2.5 million sq m	No major addition to mall based retail space in 2011.
Future Supply (2011–2013)	0.1 million sq m	Supply over the next two years will be mainly from smaller community malls.
Average Estimated Rental Value	AED 1,885 / sq m	
Average Regional Mall Vacancy	20%	



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# Dubai *Hospitality* Market Overview



# Key Takeaways – Hospitality Market

## Supply

- As of Q2 2011, Dubai's total hotel supply stood at 52,300 rooms, reflecting an increase of 2% compared to the end of 2010.
- There was only one addition to the hotel supply this quarter, Radisson Blu Downtown. This brings the total supply additions during the first half of 2011 to 1,200 rooms.
- Another 2,500 rooms are expected to enter the market over the remainder of 2011. The majority of these comprise upscale and upper upscale hotels.

## Demand

- Dubai witnessed a 10% increase in tourist arrivals in 2010 and is expected to receive about 8 million tourists in 2011 registering a growth of 17%.
- The strong growth in airport arrivals over the last year has continued to fuel hotel demand in the city. Dubai International Airport has registered a CAGR of 16% in arrivals over the last 10 years, reaching 23 million passengers in 2010.
- The Top 5 Source Markets in 2010 were UK, India, Iran, Saudi Arabia and USA. A 25% increase was registered in demand from China over the last year.

## Performance

- Occupancy levels in the first four months of 2011 have increased to 81%. This is an improvement of 4 percentage points over the same period in 2010.
- The previous contraction in Average Daily Rates (ADRs) has slowed significantly, with a marginal drop of just 1% YTD April 2011.
- Beach hotels have registered a 3% increase in YTD ADRs after declining over the last two years.
- Improving occupancy combined with stabilising ADRs, resulted in 5% growth of RevPAR during the first four months of 2011.

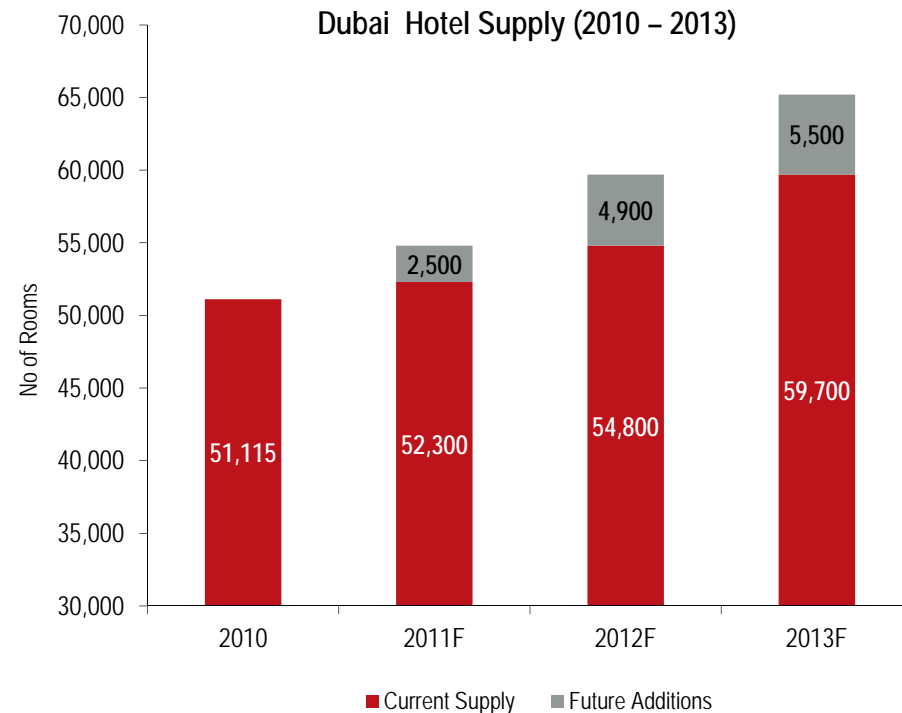
## Outlook

- The upward trend in tourist arrivals is expected to have a positive impact on hotel performance in the short to medium term, with occupancy levels stabilising in the market.
- The delay in several projects will allow for a smoother absorption of the new supply. However, ADRs are not expected to experience any significant growth in the short term.



# Hotel Supply

- At the end of Q2 2011, the total hotel supply in Dubai stands at approximately 52,300 rooms.
- The first half of 2011 witnessed the addition of 1,200 branded hotel rooms in Dubai, with the most recent opening being the Radisson Blu Downtown in Business Bay.
- Approximately 12,500 additional guest rooms are expected to be completed by 2013, of which some 2,500 rooms are expected to enter the market in the second half of 2011.
- In H2 2011, major anticipated openings include: Royal Amwaj (Palm Jumeirah), Al Khor Rayhaan (Al Ghurair City), Doubletree By Hilton Al Barsha, and Ramada Plaza JBR.
- Project delays and cancellations will contribute to smoother absorption of new supply.

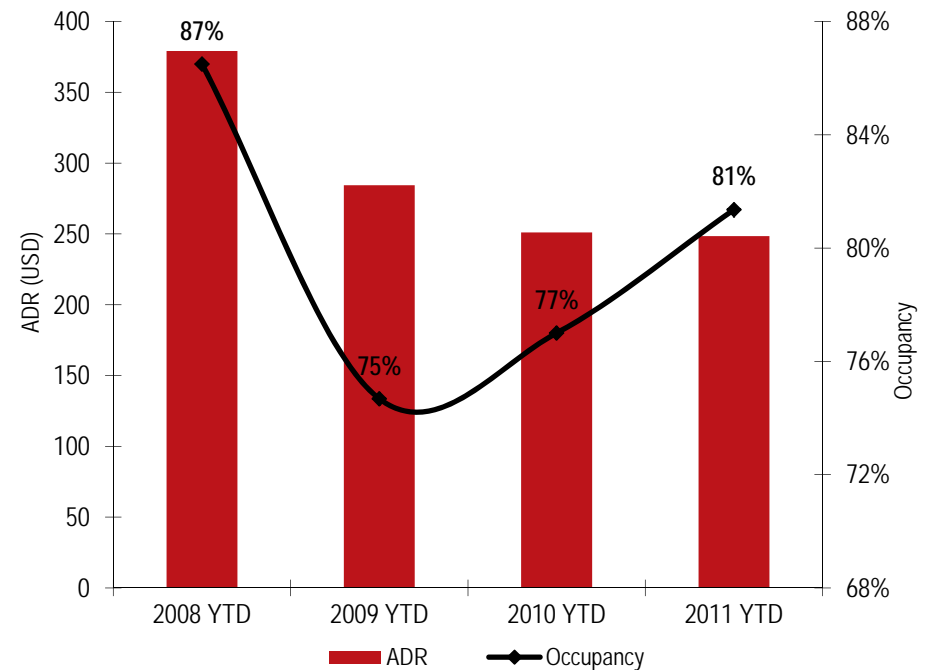


Source: Jones Lang LaSalle Hotels, Q2 2011

# Trading Performance



- After experiencing a significant decline in 2009 and 2010, the average trading performance of Dubai hotels has witnessed an improvement in the first four months of 2011.
- During this period, occupancy rates increased by 4 percentage points over the same period in 2010, surpassing 80% across all the major sub-markets in the city.
- The previous contraction in average rates has now slowed, with ADRs dropping by a marginal 1% on a city-wide basis. Beach hotels, which have historically been strong performers in the market, registered a 3% YTD increase in ADRs as of April 2011.
- As a result, RevPAR levels showed a 5% growth over the same period in 2010, exceeding USD 200 YTD as of April 2011. Beach hotels registered a double digit RevPAR increase of 11% during the first four months of 2011.

Dubai Hotel Performance (2008 – 2011)



Source: STR Global

# Hotel Market Summary

Indicator Q2	Level	Comment / Outlook
Current Hotel Supply	52,300 rooms	In H1 2011, 1,200 rooms were added to overall inventory in Dubai. In Q2, the only new hotel to open was the Radisson Blue Downtown in Business Bay.
Future Supply (2011-2013)	12,900 units	As delays continue to impact the completion and opening of hotels, several projects intended to open in 2011 have been pushed to 2012 / 2013. At the same time, there have been additions to the 2011 supply pipeline with the announcement of Al Khor Rayhaan by Rotana at Al Ghurair City.
2011 YTD* Occupancy	81%	 <p>Increase in YTD levels of occupancy with resurgence witnessed across the various sub-markets.</p>
2011 YTD* ADR	AED 918	 <p>Average room rates (ADRs), showed a marginal decline of 1% while RevPAR levels across the city increased 5% YTD April 2011. Beach hotels registered a stronger RevPAR increase than city hotels.</p>

\*YTD is as of April 2011.



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