



# Top *trends* for UAE Real Estate in 2012

2012

INITIATIVES

SUSTAINABILITY

GLOBAL INFLUENCES

TOP TRENDS

FLIGHT TO QUALITY

TRANSFORMATIONS

REALISM

AFFORDABLE HOUSING

REFOCUS

MEGA

LEED

RATIO

FRAGMENTED

ABU DHABI

SALES

RECOVER

SAVINGS

VARIATION

DUBAI

REGIONAL

NECESSITY

NEUTRAL

GOVERNMENT INITIATIVES

SPENDING

IMPROVED SPACES

LEASING INCENTIVES

REDUCED FLOORSPACE RATIOS

AVAILABILITY

UNITED ARAB EMIRATES

INFRASTRUCTURE

INVESTOR INTEREST

LOSERS

FREEZONES MERGER

PORTFOLIO OPTIMISATION

MANAGEMENT

CHOICE

WINNERS

SAFE-HAVEN

TENANT-FRIENDLY

RETAIL

VILLAS

HOTELS

GREEN BUILDINGS

VALUATIONS

DEMAND

PRIVATE MONEY

REALISM

REITS

RENT NEW SUPPLY

FINANCIAL VIABILITY

HOSPITALITY ON THE RISE

RENTAL GROWTH

REDUCED COSTS

PROJECT DELIVERY

BUDGET

TENANTS

INCREASE IN POWER PRODUCTION

VARYING PERFORMANCE

LOCATION

SUB-LEASING

EXPANSION

BOTTOMING OUT

SELECTIVE LENDING

TOURIST INFRASTRUCTURE

REDEVELOPMENT

MENA PLAYERS

COMPETITIVE REPOSITIONING

OCCUPIER CHOICE

# Outline of Presentation

- 01 Regional & Global Influences
- 02 Mega Trends in UAE Real Estate
- 03 Implications for Market Sectors (Office, Residential, Retail, Hotels)
- 04 Implications for Major Markets (Dubai, Abu Dhabi)
- 05 Q & A

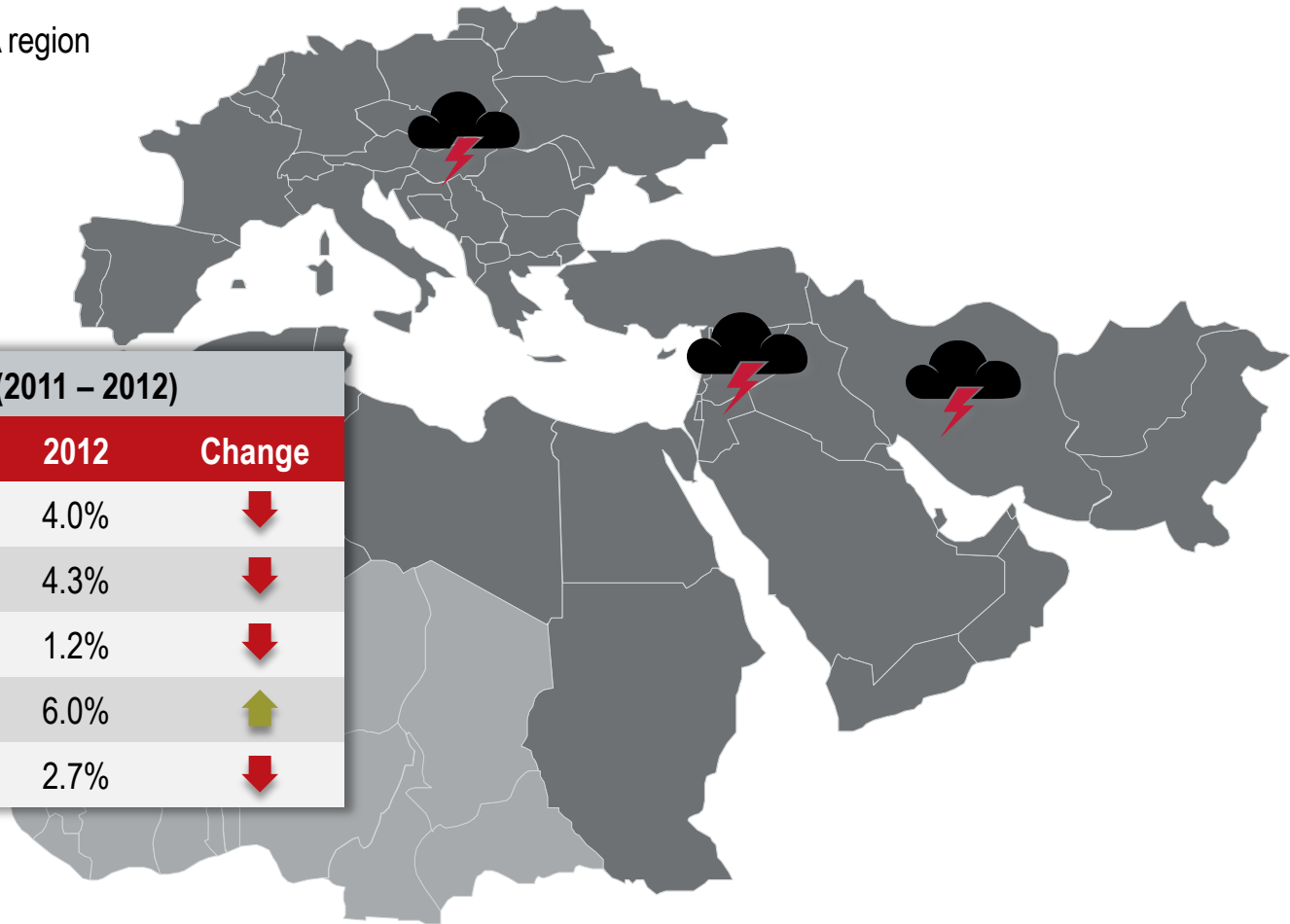
# Global / Regional Challenges

3 major external threats to UAE real estate market in 2012

- Instability / tensions in MENA region
  - Iran
  - Syria
- Euro Debt Crisis

| Real GDP Growth (2011 – 2012) |      |      |        |
|-------------------------------|------|------|--------|
| Country                       | 2011 | 2012 | Change |
| UAE                           | 5.3% | 4.0% | ↓      |
| Middle East                   | 5.3% | 4.3% | ↓      |
| Europe                        | 1.5% | 1.2% | ↓      |
| Asia Pacific                  | 5.3% | 6.0% | ↑      |
| Global                        | 3.0% | 2.7% | ↓      |

Source: IHS Global Insight





# 1: Realism

Real Estate Sector will see more realism in 2012

- Increased attention to customer requirements – as markets become more competitive, developers will target needs of occupiers more closely.
- Financial realism – with more focus on commercial viability.
- Banks are becoming more selective on lending criteria.
- Consolidation / rationalisation of projects as developers seek to prioritise spending.
- Further project cancellations (220 projects already cancelled by RERA in Dubai) with Abu Dhabi Government also taking measures to reduce future supply.
- Emphasis on affordable housing rather than luxury housing (Emaar's – Dawahi Development) and similar focus on mid market by Abu Dhabi developers.
- Emphasis on mid market hotels, not just luxury.
- Increased demand for valuations to assess true market value / performance.
- Potential improvement resulting from proposed legal / regulatory reforms (if implemented).

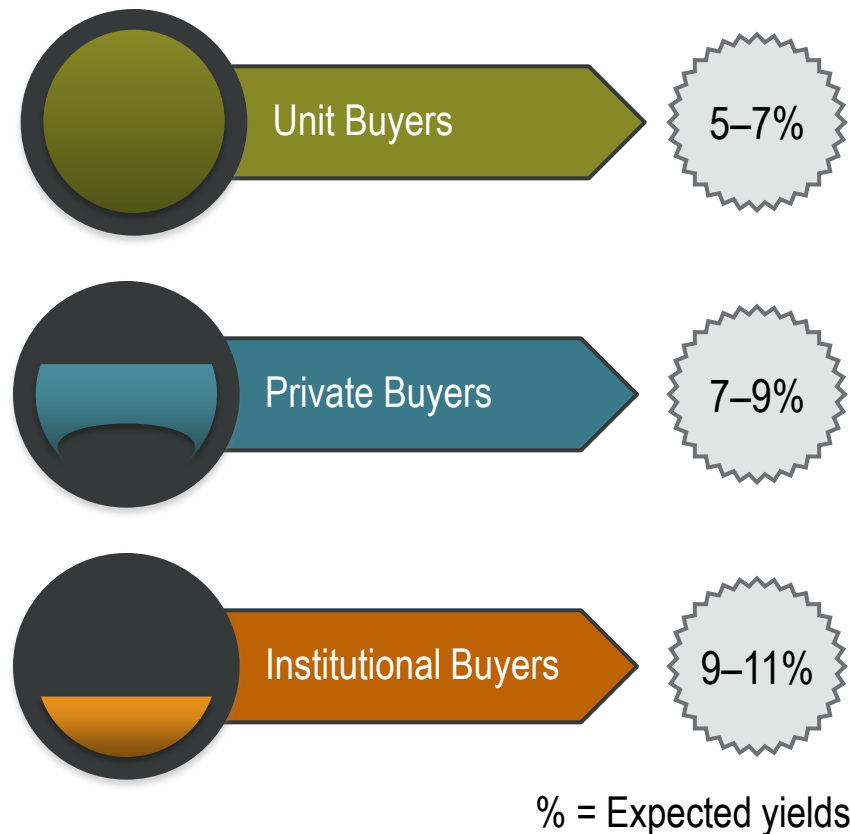


## 2: Transactions

### Increased activity in Consumer & Private Sectors in 2012

- **Consumer market** will become more active, with increase in sales of individual units / villas in established locations:
  - Increased confidence that prices have bottomed in Dubai
  - Mortgage finance more readily available
  - Cash buyers to remain active
- **Private Companies / High Net Worth Individuals** will continue to dominate the market for whole building investments:
  - Preferred deal size of AED 30 – 70 million
  - Focused on residential opportunities
  - Interest in both freehold and non freehold locations
  - Back yard investment – with most demand from UAE and regional (GCC and other MENA) players
- **Institutional investment** will remain limited in 2012 due to shortage of suitable investment grade stock. (ICD / Brookfields likely to be the exception).

### Composition of UAE Real Estate Investment Market



Source: Jones Lang LaSalle



# 3: Management

From master planning to master management – with more emphasis on estate management in 2012

- Estate (public realm) management will play a greater role in determining between winners and losers in an increasingly competitive market in 2012.
- Fragmented ownership presents challenges that need to be addressed through more strategic estate management of the common / external areas.
- Service charges for development and ongoing maintenance of common external areas need to be included within rent and sale contracts.
- Service charges for (quality) external services will be value enhancing through achievement of high occupancy levels and rental premiums.
- Achieving a common level of service delivery between different assets within the same master development.
- Strategic **estate management** preserves long term value and increases life cycle of project.



# 4: Sustainability

Long term imperative but not a game changer in 2012

- Increased awareness with some progress made in 2011:
  - Emirates Energy Star system
  - Proposed Waste Tax
  - Some owners / developers undertaking sustainability audits
  - Plans for Solar Park – to commence generation in 2013
- Not likely to be a major priority in 2012:
  - Few new developments / too early to retrofit many buildings
  - Reluctance among owners to accept green leases
  - Limited regulation to enforce change
- Most initiatives in 2012 are likely to be micro / small scale.
- Abu Dhabi will continue to take the lead:
  - Estidama regulations
  - Masdar – continuing albeit at a slower pace
- Sustainability initiatives offer potential to reduce operating costs and thereby improve bottom line performance.
- International evidence that **green buildings outperform** financially will ensure sustainability becomes a commercial imperative (but not in 2012).





# 5: Choice

## Supply levels remain significant, resulting in more competition

- Significant levels of new supply scheduled to enter office and residential sectors in both Dubai and Abu Dhabi in 2012.
- Dubai retail is the only sector scheduled to see reducing levels of new supply in 2012.
- Increased supply levels in Dubai being supported by Government initiatives (Tayseer and Tanmia) that aim to restart work on previously stalled projects.
- Continued supply will provide **greater choice** for occupiers / keeping markets competitive.
- Greater mismatch between new supply and requirements of increasingly selective end users.
- Increased recognition by Government Agencies of the need to reduce future supply pipeline. RERA have announced 220 project cancellations in Dubai with Abu Dhabi Government also restricting future supply levels from 2013 onwards.

| Dubai New Supply    |         |           |   |
|---------------------|---------|-----------|---|
|                     | 2011    | 2012      |   |
| Office (sq m)       | 803,000 | 1,100,000 | ↑ |
| Residential (units) | 13,000  | 23,000    | ↑ |
| Retail (sq m)       | 162,000 | 6,000     | ↓ |
| Hotels (rooms)      | 2,300   | 4,500     | ↑ |

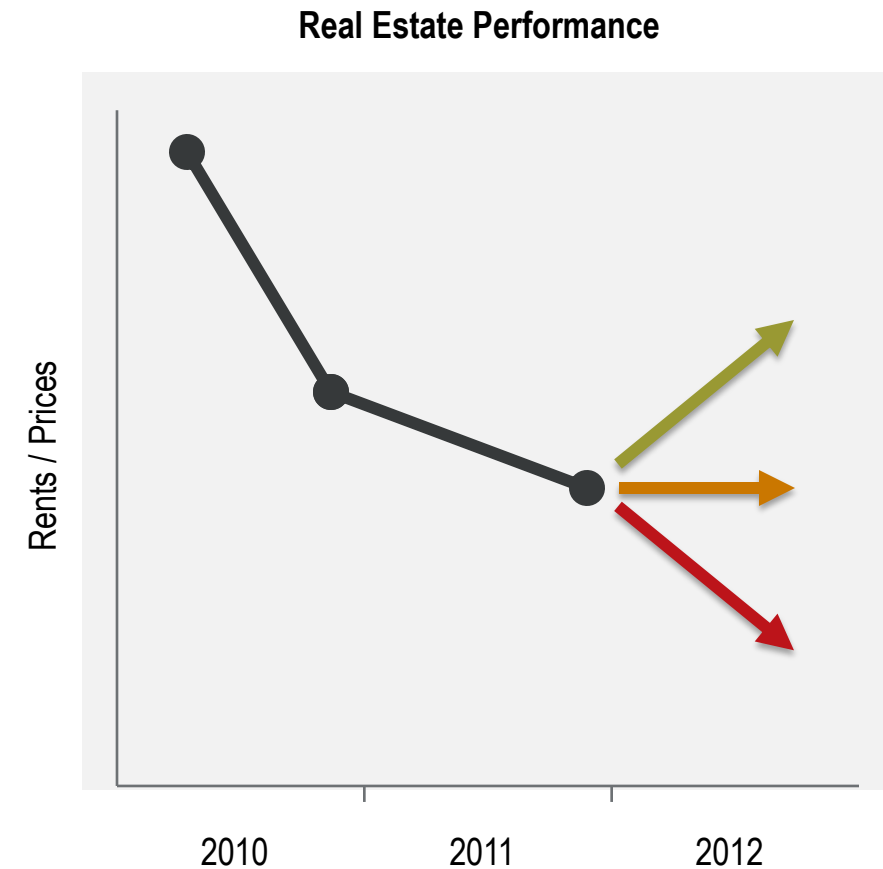
| Abu Dhabi New Supply |         |         |   |
|----------------------|---------|---------|---|
|                      | 2011    | 2012    |   |
| Office (sq m)        | 270,000 | 617,000 | ↑ |
| Residential (units)  | 10,000  | 28,000  | ↑ |
| Retail (sq m)        | 132,000 | 260,000 | ↑ |
| Hotels (rooms)       | 2,300   | 2,400   | ↑ |

Source: Jones Lang LaSalle

# 6: Greater variation in performance

Markets within markets in each asset class

- Increased choice and more competitive prices will result in a **flight to quality** in all sectors.
- Greater variation in performance between locations (and even within the same project) as performance becomes more asset specific in 2012.
- Markets will diverge, with more variation in performance between winners and losers.
- Prime quality, well managed buildings in established locations will outperform, with continued declines in secondary projects in new / less established locations.
- Dubai metro to have increased influence on performance during 2012.



Source: Jones Lang LaSalle

# Jones Lang LaSalle's – Top Trends for 2012

- 01 More Realism
- 02 More Transactions
- 03 More Management
- 04 More Sustainability
- 05 More Choice
- 06 More Variation









# Office markets to become more tenant friendly

Average effective office rents will fall in both Dubai and Abu Dhabi in 2012

- While asking rents will remain stable in prime buildings, average rents will fall further in 2012.
- Greater divergence between face and effective rents as landlords offer more leasing incentives.
- Abu Dhabi landlords will become more realistic during 2012, resulting in rents falling more than in Dubai.
- Global trend for occupiers to reduce real estate costs through **Portfolio Optimisation**.
- Dubai and Abu Dhabi to see increased levels of sub-lease space becoming available on the market.
- Good time to be a tenant as markets become more competitive.

Tenants benefit from market conditions

| Market    | 2011  | 2012  |
|-----------|---|---|
| Abu Dhabi |  |  |
| Dubai     |  |  |



Tenant Favourable Market



Neutral Market



Landlord Favourable Market

# Residential

## Variation in Performance will Characterise Residential Market in 2012

- Rents and prices will increase in some locations, remain stable in others and fall in others in 2012.
- Villa projects will generally outperform apartments in Dubai in 2012.
- Increasing **variation in performance** between buildings within the same project.
- Variation in performance of units even within the same buildings.
- Overall differential between good and bad will widen. Pricing will be driven by increasingly selective tenants and investors who require residential buildings that benefit from high quality projects benefitting from completed infrastructure, transport links, building management, service charges, along with surrounding community facilities and amenities.
- Rental growth (where achieved) and yield compression will be dominated by such assets.



# Retail

## Repositioning / Redevelopment of Struggling Retail Centres

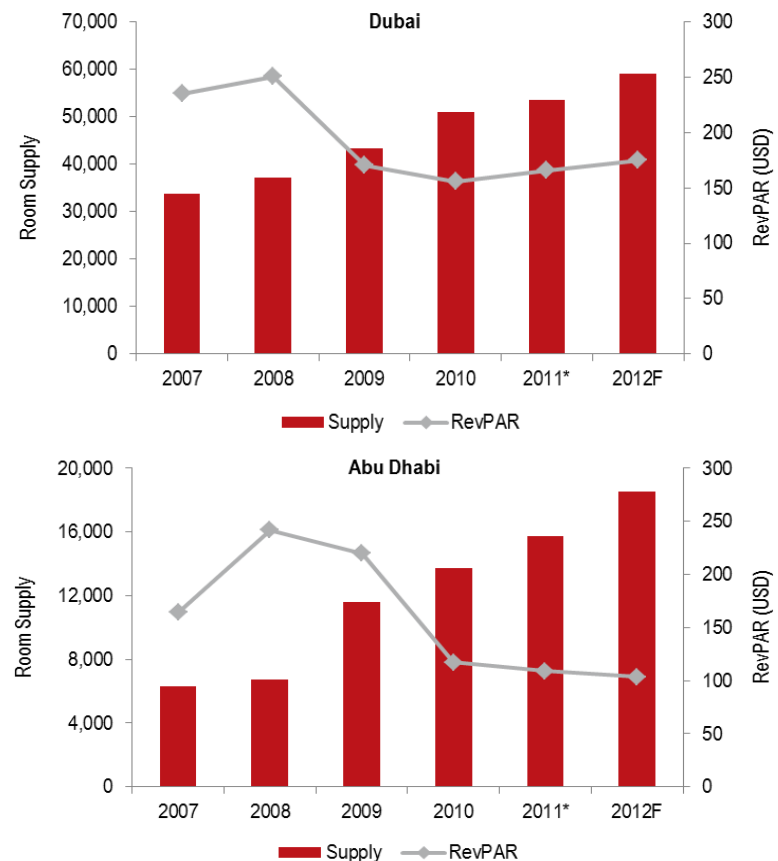
- Increased competition as markets reach saturation.
- Polarisation of market into winners and losers.
- Under performing centres will need to be repositioned.
- Some older centres will consider redevelopment or conversion to non-retail uses.
- Limited opportunities for new developments in both Dubai and Abu Dhabi:
  - Small convenience centre's on infill sites within established areas.
  - F & B / tourist related projects – in very select locations.
  - Big box / retail warehousing.



# Hotels: A Tale of Two Cities

Dubai market to strengthen while new supply clouds Abu Dhabi's performance

- After experiencing significant swings in performance from 2007 to 2010, performance of the Dubai and Abu Dhabi markets diverged in 2011 (with RevPAR growth of 6.4%, in Dubai and -7.2% in Abu Dhabi).
- The same pattern is expected in 2012 with modest growth in Dubai, while new supply levels will see performance soften further in Abu Dhabi.
- The continued expansion of Dubai's tourist infrastructure and its 'safe haven' reputation will remain instrumental to its resilience in 2012.
- Increased mid-market product will solidify Dubai's position as a maturing market.
- Experienced owners will see the value of intensive Asset Management, driving the bottom line in 2012.
- From 2013 onwards, the improvement in Abu Dhabi's tourist offering will generate positive performance in the hotel sector.



\* 2011 figures – YT November  
Source: Jones Lang LaSalle Hotels



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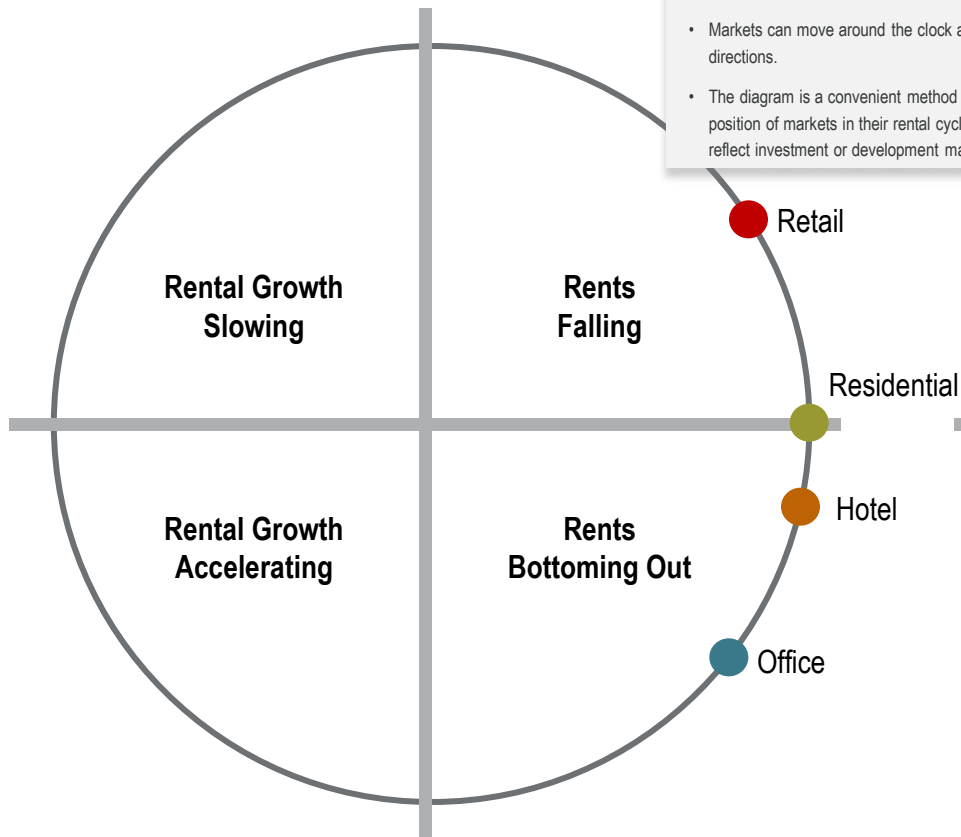
# Market Directions – Abu Dhabi

## Prime Rental Clock

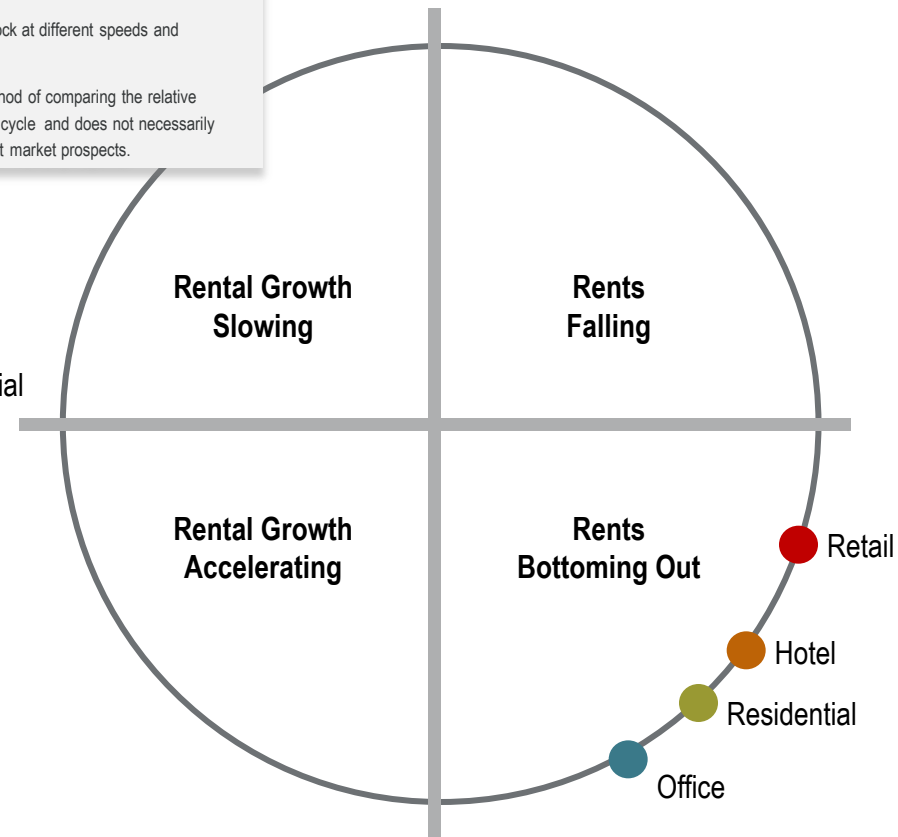
**Note:**

- This diagram illustrates where Jones Lang LaSalle estimate each sector lies within its individual rental cycle at the given period.
- Diagram shows position of prime properties within each sector
- Markets can move around the clock at different speeds and directions.
- The diagram is a convenient method of comparing the relative position of markets in their rental cycle and does not necessarily reflect investment or development market prospects.

**Early 2012**



**Early 2013**



Source: Jones Lang LaSalle

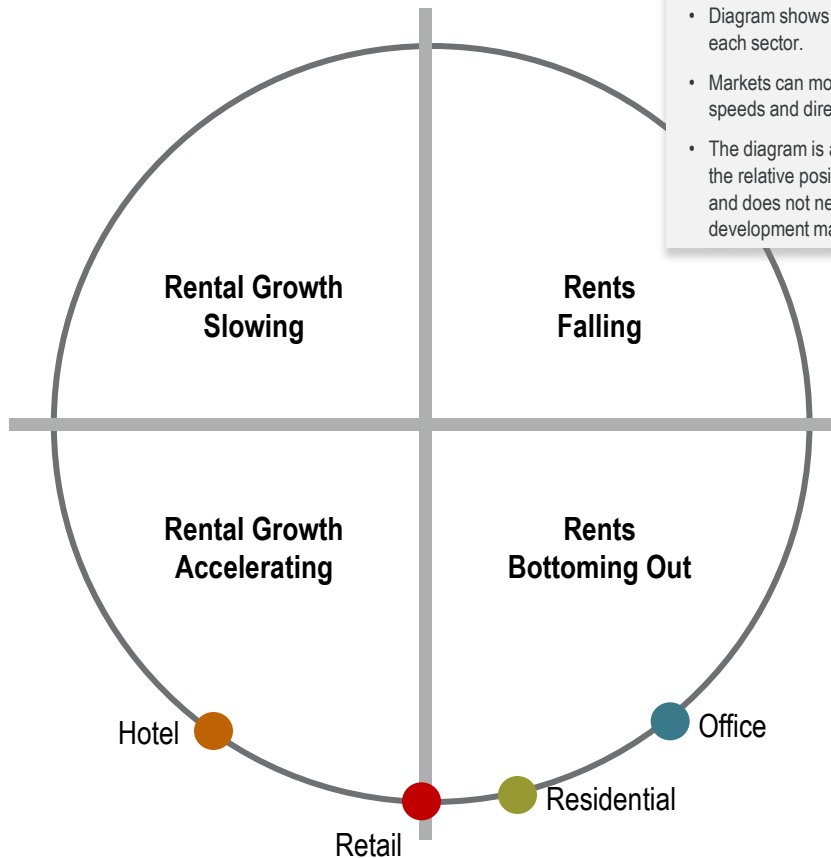
# Market Directions – Dubai

## Prime Rental Clock

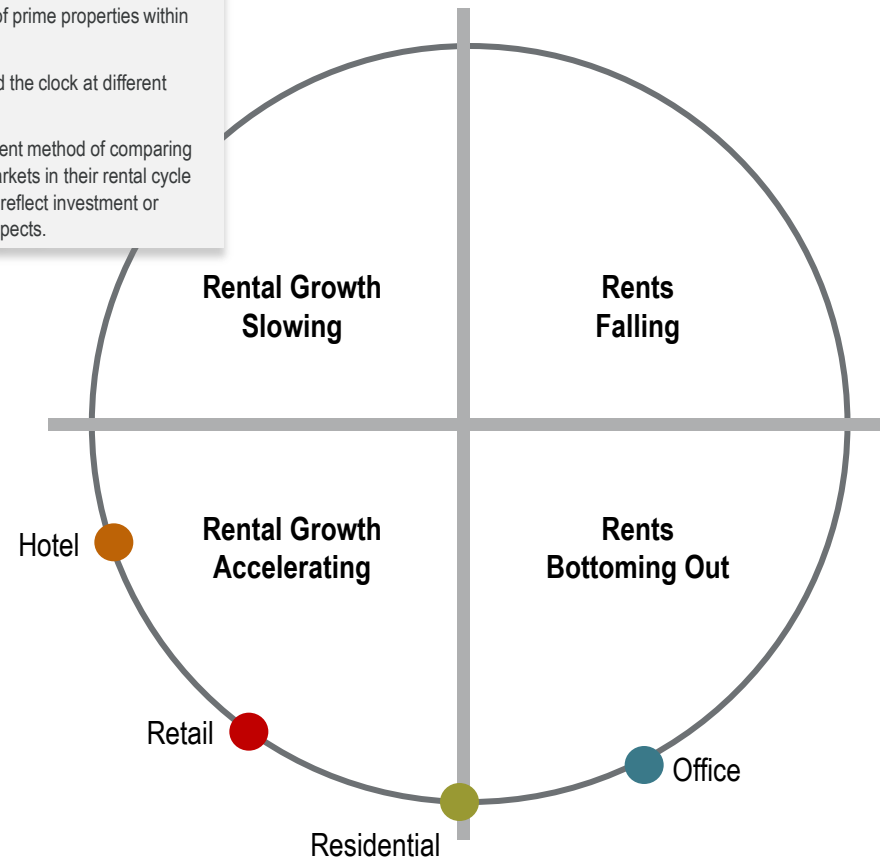
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**Early 2012**



**Early 2013**



Source: Jones Lang LaSalle

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*Real value in a changing world*

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