Quick Stats

	Change from	
Lease Rates	Q3 10	Q2 11
Residential	↓	↓
Sale Prices	Q3 10	Q2 11
Residential	↘	↘

Hot Topics

- Dubai Fateh Oil prices hover at US$105 per barrel during Q3, 2011 as regional issues continue to impact global oil pricing.
- The UAE ranked 27th most competitive out of the 133 countries included in the "The Global Competitiveness 2011-2012" report published by The World Economic Forum.
- The UAE economy is forecast to grow at over 3% during 2011 with non-oil growth anticipated to be around 3.3%.

OVERVIEW

Conditions in the real estate sector remained testing as the market tussled with the impact of the traditional summer dip, and the modest pace of economic recovery both locally and globally.

A strong oil sector driven by a sustained period of high pricing has once again provided the impetus for further public spending in the UAE. A similar situation has also been apparent regionally as governments try to curb the negative impacts of social unrest that have emerged against the backdrop of the 'Arab Spring'.

Prices for Dubai Fateh Crude Oil during the quarter hovered around US$105/per barrel with yearly prices typically ranging from US$100-$120 per barrel . The impact of reduced output from Libya has been a key factor in supporting prices, with this uncertainty effectively supporting the coffers of the UAE and other oil producing countries in the Gulf.

Amidst a prolonged period of strong oil industry revenue, the Abu Dhabi government continues to invest heavily in economic diversification. This is particularly evident in the industrial sector with the ongoing development of Khalifa Port and the Khalifa Industrial Zone (KIZAD). The 417 square kilometre scheme, envisaged to become operational by the end of 2012, will become the focal point for Abu Dhabi's manufacturing, logistics and trade related sectors.

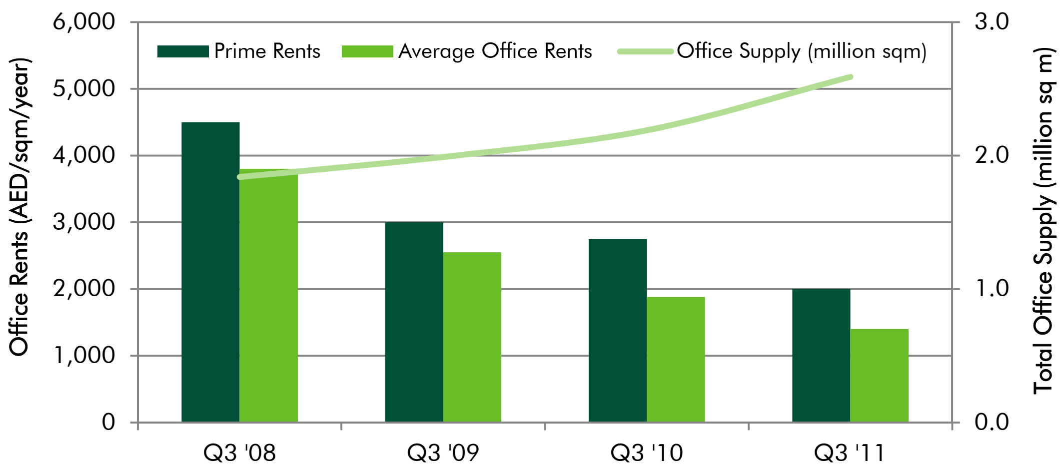
The UAE economy is anticipated to expand further during 2011 with various government and non-government agencies forecasting over 3% growth. The IMF also revised their growth forecast of 3.3% to 3.8% . Non-oil sectors continue to perform well, with contribution to GDP estimated to reach 3.3% from circa 2.1% in 2010.

Further positive performances from the tourism, hospitality, retail and other service related sectors are also expected to soften the impact of slowdowns felt in other local economic areas.

The Global Competitiveness Report 2011-2012 has ranked the UAE the 27th most competitive country globally, down two places from the previous year. However, amidst challenging conditions regionally, the country does continue to demonstrate a high level of competitiveness in areas such as public spending on infrastructure, technology readiness and overall macro-economic stability.

With the health of the global economy looking more uncertain by the day, public spending through infrastructure development, improvements in social services and other public facilities will remain vital in fuelling economic activities. Large-scale projects such as Etihad Rail, the development of nuclear power plants, and expansion of road networks will all have major direct and indirect impacts on demand for real estate, whether it be residential, educational, commercial offices, healthcare or hospitality.

Abu Dhabi Office Rents and Supply



Source: CB Richard Ellis

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OFFICE SECTOR

Despite a generally subdued atmosphere in the office sector, some more encouraging signs did emerge. Quarter on quarter, activity levels were up, with the number of enquiries and overall transaction volumes both experiencing modest growth.

However, despite renewed interest levels, the market continues to experience downward pressure on rents and rising vacancies amidst new supply volumes. During the quarter, the average lease rate across all grades of space was around AED1,400/sqm/year. In a dipping market, the upside is that the rate of decline slowed, with a quarterly reduction of 5%, against an 11% fall in the previous quarter. Rental rates for Category A offices remain unchanged at around AED2,000/sqm.

Reducing capital expenditure remains a key priority for commercial occupiers with cost-cutting continuing to influence relocation decisions, despite the emergence of widespread tenant-friendly conditions. Prospective occupiers are also becoming increasingly keen to build flexibility into lease contracts seeking tenant-only break options where available. In order to avoid significant expenditure at the front end of the lease, tenants are also keen to rentalise their fit-out costs across the duration of the term.

With no clear signs of demand levels increasing sufficiently to meet new stock growth, rental rates are likely to fall further. Occupiers are now increasingly confident in their negotiating leverage, with expectations that terms will be weighted in the tenants favour.

Location still remains pivotal in the overall leasing decision, although some cost-conscious tenants are demonstrating a willingness to trade-off a CBD address to find more affordable accommodation with higher specifications and effective management systems in place.

RESIDENTIAL SECTOR

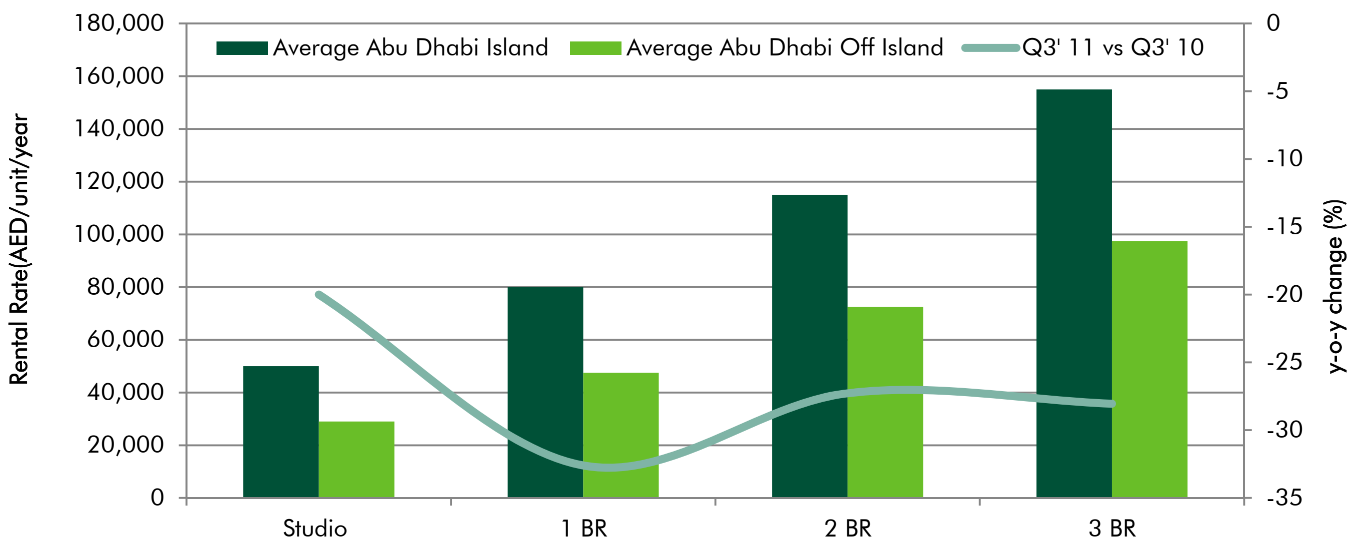
The flow of new housing units onto the Abu Dhabi market continues unabated as supply emerges from both stand-alone and masterplanned schemes. The ever growing residential inventory is inevitably leading to heightened competition with some landlord's slashing their rates in order to remain competitive.

Off-island properties outside new masterplanned communities are typically suffering the most, with a combination of sustained supply growth and inadequate facilities the main drivers of the rapid depreciation witnessed in areas such as Khalifa and Mohammed Bin Zayed City.

Well located properties are able to maintain rates at levels well above the market average. Lease rates in areas such as Bateen, Corniche and Khalidiya remain in extremely high demand with prime rents for 1-BR and 2-BR units currently around AED90,000 and AED110,000 respectively.

High demand and the limited supply of 'lifestyle' properties in prime areas has resulted in massive disparities between rents within the same location. Some upscale residential dwellings in attractive areas of the capital have achieved premiums of over 45% compared to slightly lower quality properties within their immediate locale.

Abu Dhabi Island vs. Off-Island Residential Rents



Overall, average residential rents in the capital fell by 7% from the previous quarter. Older and inferior units performed the worst with rates declining by over 10% as the wider availability of new product and increasing competition from new developments took its toll.

As rents remain under deflationary pressure, the capital continues to become more affordable for its residents. However, the issue of "affordable housing" is still something that has yet to be fully addressed with the current inventory of ongoing developments targeted mainly towards high end markets.

Accommodation at the lower end of the price scale, are typically devoid of suitable facilities and amenities and often have no connectivity with suitable transport nodes. Any plans for delivering affordable housing must consider the availability of wider transportation options and the proximity to key services that currently act as a deterrent to living outside central areas, a major factor in current overcrowding issues that the government is seeking to address by its recent legislative changes.

The prices of residential properties remained stable during the quarter, starting from AED11,300/sqm for properties on Reem Island and Raha Beach developments. However, the appetite for buying properties remains generally weak with further delays on project completion and actual handover of units impacting on investor appetite.

The construction status of each project remains the key driver for transaction activity with delivered properties that are able to offer immediate rental returns gaining the most attention form prospective investors. In addition to ongoing supply concerns, limited access to available finance continues to constrain the sales market. Only those with access to significant capital are able to secure the best terms, preventing many potential end-users from joining the property ladder.

OUTLOOK

Despite an improving economic position in Abu Dhabi and the UAE, the downward trajectory of lease rates across both commercial and residential property is anticipated to continue. Certain locations and specific property classes will continue to outperform the market as has already become apparent for high quality product across all asset classes. However, the rapid expansion of new inventory will continue to exert downward pressure on values, rates, and occupancy and this will remain the case until demand levels start to match the rate of supply growth.

As supply increases, the market will continue to favour buyers and tenants, hence, forcing property market players to reconsider their development approach to ensure that they are meeting with the changing needs and expectations of their target group.

Although some progress has been achieved in recent years, Abu Dhabi still requires further refinement of its real estate policies and regulations. With the majority of current residents and investors being foreign nationals, issues pertaining to property ownership laws, residency visas and investor protection will remain essential in enticing new investment as the market heads towards stability.

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