

Quick Stats

Change from		
Lease Rates	Q2 09	Q1 10
Residential	↓	↓
Sale Prices	Q2 09	Q1 10
Residential	↓	↓

Hot Topics

- The Ministry of Economy has revealed that UAE GDP grew by 1.3% in 2009.
- Abu Dhabi, the country's political capital, remains the main contributor accounting for circa 60% of the national revenue.
- Government-backed projects remain at forefront of development activity as sourcing development financing remains difficult.
- A differential of 30% to 55% is evident on leasing values between Abu Dhabi island and Off-island locations.

OVERVIEW

The UAE economy has demonstrated remarkable resilience during the financial crisis and was still able to post positive GDP growth of 1.3% during 2009. Despite this background, the inability to access financing facilities continues to hamper end users, developers and would be investors in the real estate sector.

This lack of funding has created huge constraints in the property sector resulting in numerous projects being placed on hold, and in some cases, cancelled. Significant support has been provided by Government-backed projects, which have provided private developers and contractors with alternatives during a period of very tight liquidity.

The Abu Dhabi Department of Municipal Affairs has drafted new laws addressing building codes. The draft law includes 16 sub-codes covering "green" buildings, construction of anti-tremor measures, fire resistance, and other safety and security measures. Generally, the law seeks to introduce the latest construction, civil systems and specifications to Abu Dhabi.

The move signifies another positive step forward for the maturing market of Abu Dhabi, and continues the long term drive towards a stronger legislative regime in the construction sector.

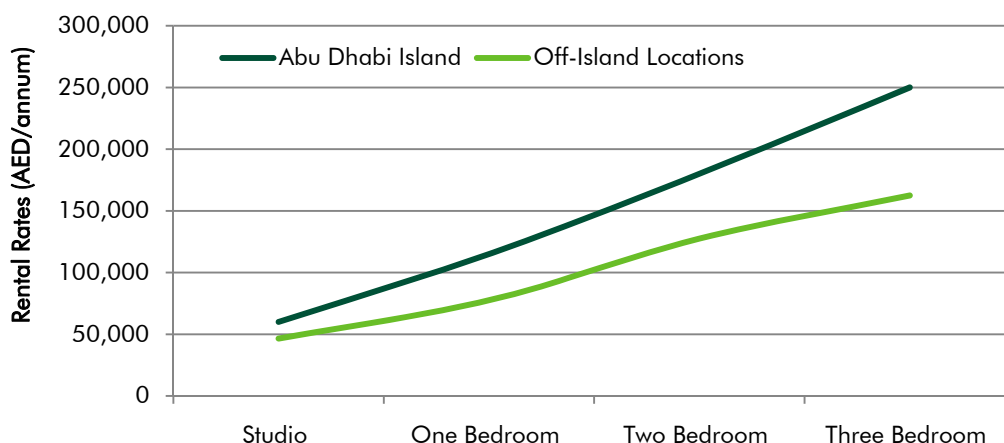
RESIDENTIAL SECTOR

The second quarter saw the release of units at the Reem Island development. The handover of residences at Marina Square and Sky and Sun Tower has added significantly to the levels of lease stock. Units are currently available at AED90,000 and AED120,000/unit/pa respectively for 1 and 2 bedroom units, although price differentials are evident for premium views and unit sizes.

Significant numbers of residential units are expected to be completed during the second half of 2010. This will add mounting pressure to already declining lease rates, with some newer areas of the city likely to encounter some short term oversupply as multiple buildings are handed over in a short period.

Residents looking for more affordable accommodation are now finding a wider array of options, with more units becoming available from off-island locations such as Khalifa City A & B, and Mohammed Bin Zayed City. Residential units situated off-island continue to command significantly lower rental rates, as compared to similar quality product within the main island area. Locational premiums are thus becoming more and more evident as the rate gap widens between specific areas. This is reflected by the 30% to 55% differential on lease rates between the two main residential locations, as indicated below.

Average Residential Lease Rates (Main Island vs. Off-island Locations)



Source: CB Richard Ellis

Quick Stats

Change from		
Lease Rates	Q2 09	Q1 10
Office	↓	↓
Sale Prices	Q2 09	Q1 10
Office	N/A	N/A

Hot Topics

- Average prime office rental rates now around AED2,200/m<sup>2</sup>/pa, a decline of 5% from Q1 2010.
- The first commercial space has been handed over at Reem Island with the completion of Sky Tower.
- A draft law relating to a new building code for Abu Dhabi has been prepared.

OFFICE SECTOR

The commercial sector in Abu Dhabi is slowly shifting from a supply-constrained environment with limited quality product, to a market with rising stock levels and improving specifications.

Overall, the market continues its movement in favour of tenants, with new supply, rising vacancy rates and sliding rents characterising the first half of the year. Albeit the decline is now far slower than during the previous year, with average rents during Q2 recorded at AED2,200/m<sup>2</sup>/pa, a 5% decline from the previous quarter. In comparative terms, average prime rates are now at less than half the level registered during the peak of 2008.

The second quarter 2010 saw the completion of the first commercial project on Reem Island with the handover of space at Sky Tower. Other notable office completions, included the Silverwave Tower, located in the Meena area of the city.

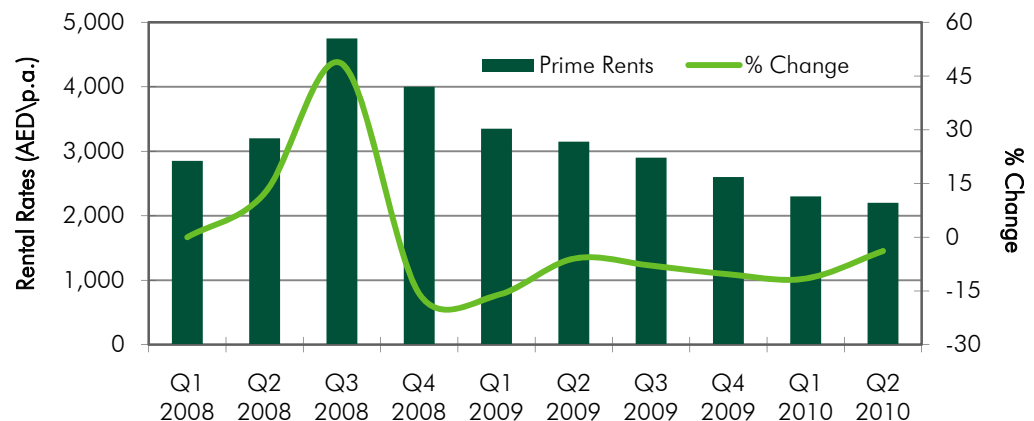
Some prime commercial product continues to be set apart from other offerings in the market, with superior specifications and facilities allowing significantly higher rental rates to be set. The Al Sowwah Square development has already attracted considerable interest from high profile domestic and international occupiers, raising the number of pre-lets secured at rates around AED3,000/m<sup>2</sup>/pa. This exceptional rate within a difficult market environment positively reflects not just the quality of the space and the overall development, but also the increasing demand for Grade A accommodation in the market at present.

A number of other Grade A developments will also be completed during the next 18 months which could impact on achievable rates. This includes International Tower at the Capital Centre and the TDIC/ADTA building located in the Between the Bridges area.

As the Abu Dhabi office market expands and matures, factors such as location, quality, facilities and services, access and visibility, will become far more prominent than they were three to five years ago when available space was scarce. Increased vacancy rates and an overall improvement in quality have provided greater opportunities for occupiers to choose suitable space.

Office rental rates in Abu Dhabi have dropped significantly from the peak in 2008, although Abu Dhabi remains amongst the most expensive office markets globally. However, the impact of increasing supply and greater competition could yet result in further reductions in rental moving forwards.

Average Prime Office Rents, Abu Dhabi - 2008 to 2010



## OUTLOOK

An ever increasing stock of commercial and residential space, coupled with prevailing weaker economic environments both locally and internationally, is likely to result in downward pressure on leasing and occupancy rates in the capital. The struggle to rebound fully from the negative impacts of the financial crisis, looks set to continue through the remainder of 2010, and at this stage the main impetus is being provided by Government intervention.

The combination of the normally quiet summer and Ramadan periods is likely to further hinder activity, with potential business expansions and major decision-making likely to remain on hold until late Q3 and Q4 2010.

Government-led projects and infrastructure developments, including the proposed railway network, nuclear plant and automobile zone, remain important demand generators and hopefully catalysts for further growth, not only in the real estate market, but for overall economic activity within the Emirate.

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