

Quick Stats

Change from

Lease Rates	Q2 10	Q1 11
Residential	↓	↓
Office	↓	↓
Sale Prices	Q2 10	Q1 11
Residential	↓	↘

Hot Topics

- The UAE will soon implement a unified metric measuring system according to the Emirates Authority for Standardisation & Metrology (ESMA).
- Multiple entry visas for property owners have been extended from six months to three years.
- New laws introduced to prohibit the 'overcrowding' of any residential property in Abu Dhabi, including labour accommodation.

OVERVIEW

An encouraging start to the year has been somewhat eroded by a slower second quarter performance which has seen economic and political conditions, both regional and global, negatively impact on previously improving market sentiment, despite forecasts of local economic growth.

Occupier demand during the first half of the year has proven to be weaker than previously anticipated. As purse strings continue to tighten, property requirements are being delayed and in some cases revised downwards. Agreeing to new capital expenditure remains a major issue for most companies, with cost concerns apparently dominating the decision making process.

Despite the slowdown in real estate activity, the UAE economy is projected to be in positive growth territory for 2011. Upbeat GDP forecasts by the Government and analysts are being further underpinned by a sustained period of high oil prices, currently projected to remain buoyant for at least the remainder of 2011.

Rising oil revenues will help to further boost the country's financial standing as it continues to embark on large scale infrastructure projects, amidst an ongoing correction within the property sector. However, improvement in global economic conditions are now seen to be key to an upturn in demand in both the commercial and residential sectors.

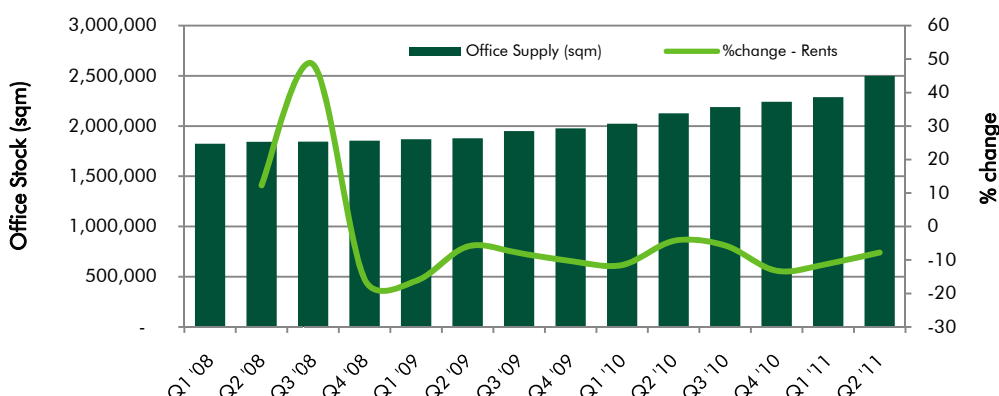
New regulations announced by the UAE Federal Government extend the previous 6 month renewable visas for property owners to a term of 3 years. The move is geared towards creating a more liberal and attractive business environment in order to revive investor confidence and interest towards the UAE's real estate offerings in general. However, the minimum requirement for a property's value to be one million Dirhams remains, excluding a significant portion of investors from benefitting.

Undoubtedly the amendment is encouraging news for the market, but raises questions as to how many other initiatives could be implemented to stimulate the sector.

The Emirates Authority for Standardisation & Metrology (ESMA) has announced that the 'International System of Units' will be implemented by the end of 2011. The move is aimed to unify existing measurement practices across the country by bringing in a single metric system.

In line with the Vision 2030, the Urban Planning Council (UPC) unveiled the Shahama and Bahiya 'Revitalisation Masterplan'. The new urban structure framework integrates sustainable planning guidelines for 17.7 million square metres of land situated in the Shahama and Bahiya regions. The plans seek to improve the 'sustainability' of the community of 27,000 residents by improved connectivity and wider provision of community facilities.

Average Office Rental Rates (AED/sqm/year)



OFFICE SECTOR

An ever growing office inventory and rising vacancy rates are combining to maintain downward pressure on the capital's commercial rents. However, despite the emergence of these tenant favourable conditions, demand remains relatively weak.

Anticipated growth in occupier demand has so far failed to materialise, with the decision making process for new office requirements and company expansion seemingly delayed by continued global economic uncertainty and regional unrest. The US and European recoveries appear to be stuttering and this is causing some caution amongst the international corporate sector. Given these circumstances, many Asian companies are now looking at their own markets for growth with the result that the international occupier market is somewhat subdued.

Even locally, commercial occupiers remain cautious with the anticipation that rents will weaken further over the remainder of the year. The imminent delivery of 240,000 square metres of Grade A office space, will do little to ease escalating competition between landlords and the terms of tenant incentives improve further. Landlords are now willing to offer more flexibility and a wider range of incentives, including long rent-free periods and multiple payment schemes, in order to try and secure longer tenures in excess of 5 years.

The decentralisation of the Abu Dhabi office sector is slowly becoming more evident as new properties are delivered. Whilst the CBD is likely to maintain its popularity, newly created commercial districts are starting to draw demand away from the city centre with the offer of high specification accommodation, good facilities and more generous parking provisions.

Amidst an ongoing slowdown in transaction activity, both Aldar HQ and Sowwah Square continue to attract significant occupier interest as the market trends towards quality office accommodation. With the imminent completion of Capital Gate, International Tower and Sowwah Square, Abu Dhabi is finally raising the bar of its commercial offerings, aligning the Emirate with international markets.

More aggressive pricing strategies are now being implemented for inferior office accommodations, particularly for those situated in locations deemed 'secondary'. Average office rents are around AED1,475/sqm/annum, reflecting an 8% drop from the previous quarter.

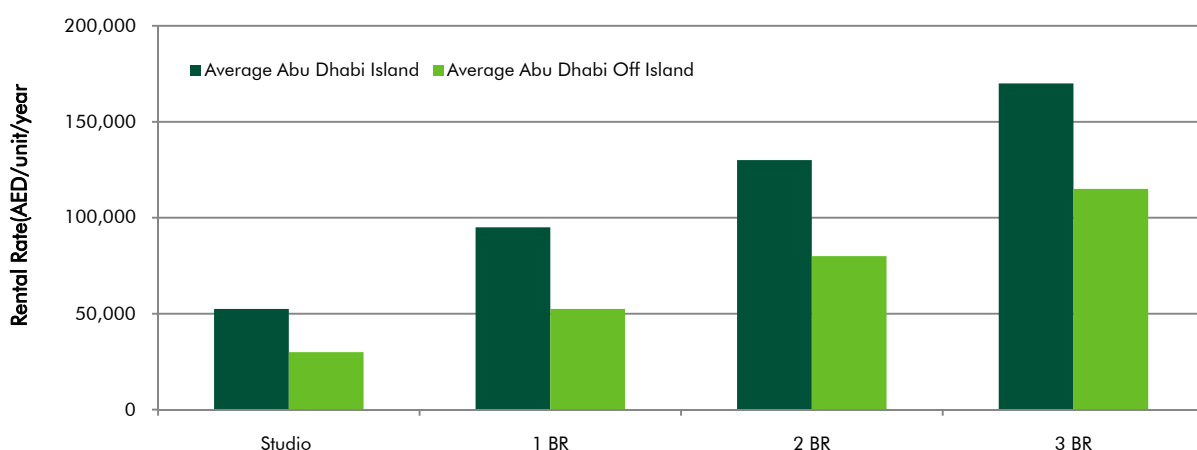
Downward pressure on lease rates is not ubiquitous, with rental movement within prime developments found to be minimal. Prime rents for Category A accommodation typically start from around AED2,000/sqm/annum, although variations do exist for different size spatial requirements.

RESIDENTIAL SECTOR

The residential market continues to fall with no end in sight to the current slide in lease rates. Delays at high profile of developments remain commonplace, with constraints in unit handovers creating a buffer to a more significant downside and potentially curtailing a more drastic fluctuation of rents. The market is still awaiting handover for towers in Marina Square, Reem Island, although occupiers have now started to move into their properties in Sky and Sun Towers.

On average, lease rates fell by 11 percent during the quarter and 26 percent on a year on year comparison. Housing units situated in secondary locations and those with poorer specifications suffered the most as occupiers sought quality in the market. Declining rental rates are somewhat inevitable in the short term as deliveries continue and relatively weak end-user demand creates a mismatch in supply and demand fundamentals.

Abu Dhabi Office Rental Rates (AED/sqm/pa)



More stability is evident in prime developments in key areas, including parts of the corniche, Khalidiya and Al Raha Beach. The combination of location, specification and availability of established community amenities are key determinants for maintaining strong rental rates, amidst negative rental trends across the wider market.

Despite more significant completions, 'affordable' housing units remain substantially undersupplied. The issuance of Law No. 1, 2011, prohibiting overcrowding in Abu Dhabi residences, may further exacerbate this situation if it is not appropriately managed. Once implemented, the law will restrict multiple occupancy within single residencies which will have an impact upon both families and individuals. Multiple tenancies are particularly prominent in the city centre with a number of aging residential towers utilised as staff accommodation and seemingly densely populated by expatriate bachelors.

Locational premiums have further widened as more units became available in off-island districts. Average rental rates for studios in the city centre are around AED52,500 per annum or around 40% higher than similar product outside the main island. Rental disparities in the range of 30-40% are currently evident between the two main locations.

Sales prices remained relatively stable during the quarter, with rates for freehold properties typically starting from AED11,300/sqm. Sales activity is now driven by end-user requirements and some long-term investors, however volumes remain weak. Completed units or those in the final stages of development continue to attract the most interest. In a bid to stimulate the market, developers are now offering an array of flexible and affordable mortgage plans, including rent-to-own schemes.

OUTLOOK

The Abu Dhabi market is likely to remain subdued over the next quarter, but further downward rental movement should be expected. Real estate transactions are likely to contract further as the market enters the quiet summer and Ramadan period. A modest upturn in demand might be evident by year end if projected economic growth is fulfilled. However, a more solid improvement in the global economy will certainly be required in order to drive the kind of occupier expansion necessary to absorb the significant supply pipeline.

It appears likely that Abu Dhabi will face short-term periods of oversupply for specific property types and locations as new supply emerges over the next two years. However, 'prime' properties are anticipated to outperform the wider market.

The market still awaits clarification and implementation of new laws and regulations that it is hoped will lead to improved transparency and greater protection for investors. Clarity in this regard is crucial, particularly given the imminent completion of a significant number of freehold residential properties.

The federal decision to extend visas for property owners from six months to three years is timely, but taking a further step to reduce the minimum unit value would have given the move more impact. For a country with a very high dependence on its foreign workforce, the new visa law should help to increase the overall appeal and attractiveness for expatriates interested in purchasing property in the UAE. However, whether this structural intervention will actually revive the real estate market is yet to be proven.

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