

## Trends

Lease Rates	Q1 09	Q1 10
Office	↓	↓
Residential	↓	↓
Sale Prices	Q1 09	Q1 10
Office	↓	↓
Residential	↓	↓

## Hot Topics

- A decree regarding the ownership of land gifted by the Government was announced in March 2010.
- Lease rates in the CBD (excluding DIFC) are unchanged from the previous quarter.
- Average lease rates for villas have dropped by 13% year-on-year on all types of units.
- Investor confidence improves on the back of Dubai World announcements.

## OVERVIEW

On 4th January the long-awaited opening of the Burj Khalifa - officially the tallest building in the world, took place. Emaar's showpiece tower was inaugurated by H.H. Sheikh Mohammed Bin Rashid Al Maktoum. Q1 also saw the Dubai Government announce plans for the restructuring of Dubai World liabilities, although exact details of the proposal and specifically how non-Government creditors would be repaid is still to be fully clarified.

The 2010 Rent Cap law was announced with rates maintained according to the 2009 decree. The rental index from the Real Estate Regulatory Authority (RERA) remains the main reference point for landlords and tenants in determining the rent for property in all defined areas.

A new decree regarding the ownership of granted land, was announced in March 2010. Under the decree, UAE nationals will be allowed to own and develop commercial and industrial land previously gifted by the Government, provided that they pay 50% of its assessed value for permission. The decree comes as further proof of the Dubai Government's strong commitment to revitalising the property market in the face of ongoing financial pressures. Importantly, the move will grant greater freedom to land owners, whilst acting as a stimulus to new development. Significantly, the new law could also help to open up the industrial sector, which could be of far greater benefit to the Emirate's economic diversification, than the expansion of the residential market that has taken place in recent years.

## OFFICE MARKET

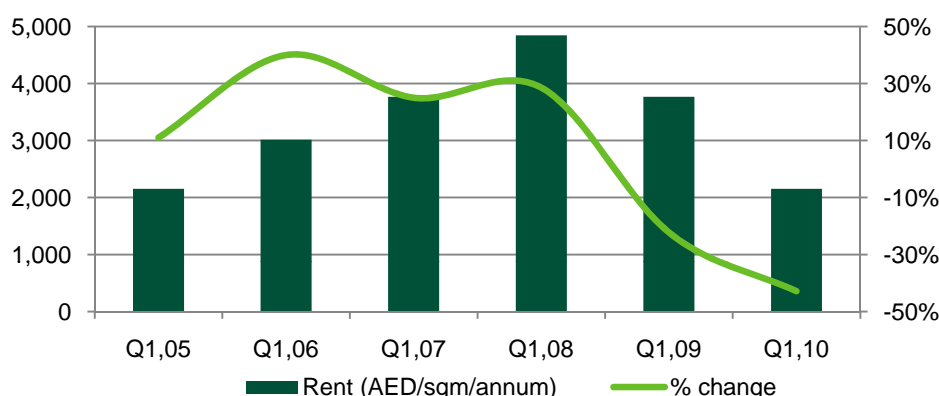
The Dubai office market was subdued during the first quarter of 2010. Low levels of demand from existing and new entrants has added further pressure to lease and occupancy rates. Demand for office space remains fixed in the smaller size category, as compared to larger spatial requirements of >500m<sup>2</sup> prior to the slowdown.

Interestingly, residential properties that were converted into office units during the peak are now returning to the market as residential product once more. Landlords are finding it increasingly difficult to let sub-standard office space in light of growing supply and improving office quality.

Vacancy rates continue to grow as supply from both existing buildings and new stock increases. Tenants continue to prosper with greater availability of accommodation options driving lease rates lower. Notable cost savings remain possible for occupiers taking existing fitted space, with accommodation often available at no premium.

Lease rates for office space in the CBD (excluding DIFC) have remained static compared to the previous quarter. Rates continue to hold in the range of AED1,940/m<sup>2</sup>/pa to AED2,400/m<sup>2</sup>/pa. On a comparative basis however, lease rates have dropped 43% from Q1, 2009. Increased competition for tenants and a continuation of testing economic conditions globally, looks set to constrain office demand in the short term, resulting in further declines in lease rates, especially for low grade stock in secondary locations.

## CBD Office Lease Rate Movement – (Q1, 2005 to Q1, 2010)



CBD: Sh. Zayed Road between Trade Centre to Interchange 1 (including Burj Dubai & excluding DIFC)

The DIFC area is now experiencing slight lease rate falls in both private developer and DIFC-owned properties, although rental rates are still at a premium over other prime districts, remaining in the range of AED3,230/m<sup>2</sup>/pa to AED4,305/m<sup>2</sup>/pa.

Secondary locations continue to struggle in maintaining occupancy ratios, despite some of the lowest lease rates in five years. Freehold locations which have emerged over the past three years remain worst effected, predominantly as a result of a huge number of completions over a short period. Lease rates in the freehold locations of Jumeirah Lakes Towers and Dubai Silicon Oasis now range between AED538/m<sup>2</sup>/pa to AED860/m<sup>2</sup>/pa. Landlords have even started to offer lease rates inclusive of service charges in order to maintain high occupancy ratios. Even with these measures, occupancy and lease rates continue to drop.

Declining lease and occupancy rates, combined with new stock entry in the freehold locations, has seen investors shy away from the transactional market as fears over further declines remain. Prime locations are now showing some renewed interest as a clear two tier market emerges. Secondary locations remain worst effected, with sales rates comparable with those of 2005 and 2006.

During Q1 2010, around 180,000m<sup>2</sup> of new office space entered the market, an increase of 4% in the total stock. Of this total new space, 67% entered in secondary, freehold locations.

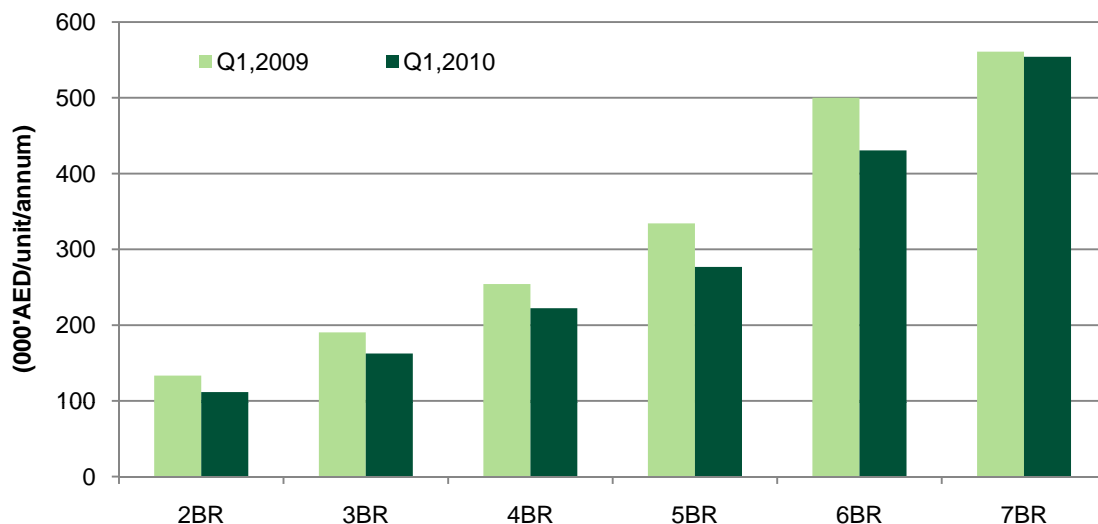
## RESIDENTIAL MARKET

Compared to the previous quarter, lease rates in Q1, 2010 witnessed only a marginal slip. However, on an annual basis, rates for apartments dropped by a more noteworthy 23%, across the 22 districts reviewed. The lease rate falls have been larger in leasehold locations than in freehold locations. Product quality, building facilities and the general level of finishing quality within leasehold projects does not compare well against the freehold equivalent. The 12 non-freehold locations analysed have experienced a 26% fall, against a 20% drop in the 10 freehold districts.

Lease rates for residential villas have also fallen across all villa districts. However, the percentage drop has been low compared to that of apartments, a consequence of basic supply dynamics. On average, lease rates for villas have dropped by 13% on annual basis across all unit types. Due to the location and offering, lease rates in freehold locations are typically faring better than leasehold locations. The average rate for a three bedroom villa in a freehold location is now AED185,000/unit/pa, whilst in a leasehold locations it is AED140,000/unit/pa. A comparison between freehold and leasehold locations reveals that the drop has been 10% in freehold locations and 15% in leasehold locations. The sharpest falls in leasehold location lease rates have taken place in Al Barsha and Mirdiff due to significant increases in stock during the last year.

Service charges across freehold locations remain a concern for both current and would-be investors. Falling lease rates have served to accentuate excessive service charge rates set by developers during the peak. As lease rates continue to decline, rental yields become further impacted. With the establishment of 'Owners Associations' still to take place, developers are suspected of exploiting owners for profit, rather than actually servicing developments for the benefit of tenants. The issue of service charges is thus likely to be a major talking point during 2010, and something that will need the proper attention of RERA to help further improve transparency and in order to stimulate and encourage greater investment activity moving forward.

### Villa Lease Rates – Q1, 2009 to Q1,2010



## OUTLOOK

The Dubai outlook has been somewhat buoyed by the Government's announcement on the Dubai World debt restructuring, specifically the news that Nakheel is to receive funds in order to begin payment of its contractors and sub-contractors. Repayment progress by Nakheel has been a burning issue over the past year, and an area of resolution that is seen to be essential in rebuilding the Dubai brand. The Dubai Government has indicated that it will inject a total of US\$9.5bn into Dubai World, with Nakheel receiving the vast majority. The positive implications for the property industry are obvious, however there are still a number of major obstacles before any real recovery can be expected.

A number of banks have made moves to relax lending terms in order to help stimulate growth in the mortgage market. Some banks are now offering attractive 25:75 lending options, along with mortgage rates ranging from 5.75% to 6.75%. As a result, we anticipate some modest activity in the transactional market. However, this activity will be largely focused on already established locations and properties ready for occupation.

The outlook for commercial office space is for another challenging year, with further downward movement for lease and occupancy rates as multiple projects in their final stages of construction begin to enter the market. The availability of office space from existing buildings as well as new office towers will see increased competition for tenants and this will impact most for landlords with inferior office product. The CBD, which historically enjoyed vacancy levels within single digits, will see further movement into double digits, although it will continue to fare better than secondary and tertiary locations as occupiers are able to enjoy a flight to quality.

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