

Quick Stats

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

Hot Topics

- Q2 saw the opening of the Armani Hotel at Burj Khalifa and the Al Maktoum International Airport.
- Average lease rates for apartments in our eight selected locations have dropped by 33% since Q2, 2008.
- Landlords opting for greater security provisions within lease contracts.

OVERVIEW

The second quarter started with positive publicity for Dubai with the opening of the world's first Armani hotel within the Burj Khalifa, another major milestone for the world's tallest building.

The other major opening of the quarter was the Al Maktoum International Airport which welcomed its first flights on 27th June.

Major infrastructure completions during Q2 included 10 metro stations which took the number of operational stops to 21, out of the 29 planned for the Red Line. The additional stops now offer improved transport linkage to major residential areas, including Al Karama, Ibn Battuta and Dubai Marina, which is likely to have a positive effect on real estate in these areas.

RESIDENTIAL MARKET

Residential lease rates during Q2 showed little movement over the previous quarter as some short term stability was found. However, analysis of the year on year figures indicate a decline of 33%. The biggest fall was noted in the one bedroom category which dropped by -37% over the previous 12 months.

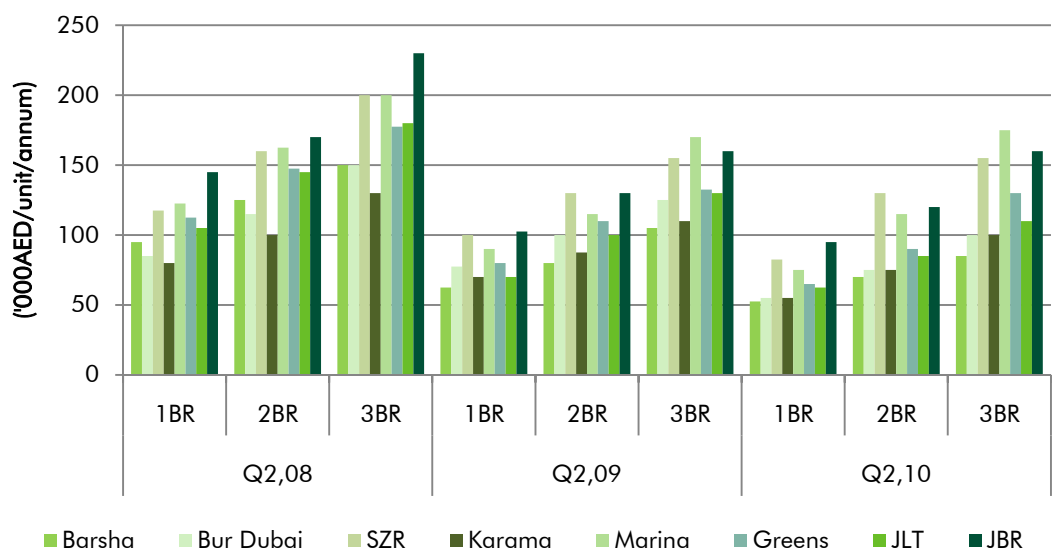
The smallest reduction was found within the three bedroom category with a 29% change. The notable differential in performance was a consequence of two key factors. Firstly, significant new supply of smaller unit types and secondly, the overall improvement in affordability that has allowed tenants to opt for larger units at a lower price.

Among the non-freehold locations covered, Al Barsha was found to have suffered the most severe drop in lease rates with a decline of 44% since the market peak.

The biggest fall in the freehold category has been within the Jumeirah Lakes Towers and the Greens developments, which have seen lease rates dipping by 40% and 36% respectively.

The impact of reduced lease and occupancy rates, and increased tenant movement within the market, has influenced many landlords to seek greater security provision within their lease agreements. This trend has included the implementation of rental penalties for contracts broken during the agreed lease period, to discourage tenants from moving mid-lease.

Apartment Lease Rates – Q2, 2008 to Q2, 2010



Quick Stats

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

Hot Topics

- Lease rates in the CBD (excluding DIFC) have dropped by 17% during Q2 2010.
- There has been a 5% increase in overall office stock compared to the previous quarter.
- Infrastructure delays have held up the market entry of significant supply of new office space.

OFFICE SECTOR

Office lease rates within the CBD which had been holding relatively firm over the last two quarters started to dip sharply during Q2 2010. The emergence of available office space in existing buildings and new towers (either completed or in the final stages of construction), has resulted in increased competition and significant reductions in lease rates of up to 17%.

A number of residential conversions utilised as office space during the peak of the real estate cycle have now started to return back to their original status. Increasing vacancy rates, office closures and widespread availability of dedicated offices at attractive rates, have been the main drivers for this trend.

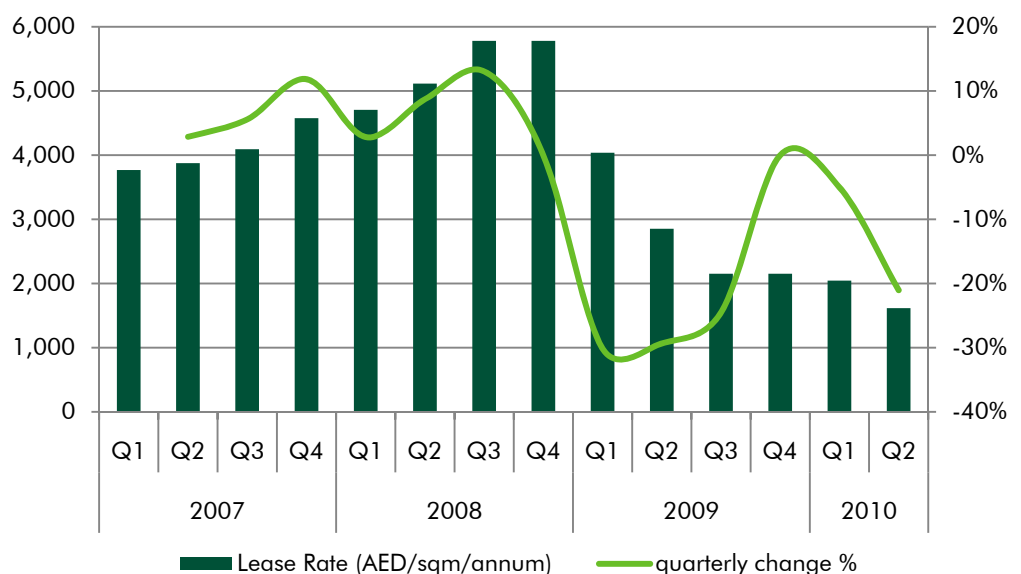
Office space in DIFC also experienced rental rate falls during Q2 with rates falling by an average of 8.0%. Current lease rates in the DIFC estate are now around AED4,000/sqm/pa, while space from private developers is being offered in the range of AED 2,700-3,000/sqm/ annum.

As of Q2 2010, the distribution of office space within the DIFC by ownership status, stood at 39% private developers and 61% from the DIFC Authority. This picture is expected to change dramatically over the next three years as new buildings are completed and strata supply increases exponentially. Provided construction and infrastructure delays are minimised, the DIFC development will see the proportions reversed to 72:28 in favour of private developers by 2012.

The main concentration for future office supply will come from the Business Bay development wherein multiple office towers are now in their final stages of construction, but experiencing power and other infrastructure delays. Looking at the current state of infrastructure, it seems unlikely that many, if any, of these properties will actually hit the market during H2, 2010.

Dubai office stock continues to see a steady upward trend, with a quarterly growth of 5%, or an addition of 240,000 square metres. The key locations for new space include Al Barsha, TECOM C, Jumeirah Lakes Towers, Port Saeed, Al Mamzar , Airport Road and Diyafa Street.

CBD Office Lease Rate Movement – (Q1, 2007 to Q2, 2010)



OUTLOOK

The real estate market is expected to remain passive during Q3 as the impact of the summer slowdown and the holy month of Ramadan take effect. Historically, markets during this period of the year are subdued and as a result further pressure on lease and occupancy rates is likely as demand continues to weaken.

A considerable number of new residential units are still expected to be handed over during the remaining two quarters of the year, and with them lease rates are likely to fall further. Those projects with established community surroundings and quality facilities to match, will continue to hold a significant premium over products within newly completed developments, as the trend of up-scaling accommodation remains widespread.

Although a number of banks have now reduced their LTV ratios and mortgage rates, the majority of lenders continue to refrain from normal lending procedures. Specifically, a number of banks have upheld their restrictions on lending to individuals employed in certain sectors of the economy. With a huge number of completed properties available in the market, relaxation of lending conditions could act as a positive catalyst for the transactional side of the market.

For more information regarding the MarketView, please contact:

Matthew Green

Head of Research & Consultancy UAE
CB Richard Ellis Middle East
Emaar Square Building 6, Level 8
Dubai | United Arab Emirates
t: +971 4 437 7200
e: matthew.green@cbre.com

Mohammed Faheem

Senior Research Analyst
CB Richard Ellis Middle East
Emaar Square Building 6, Level 8
Dubai | United Arab Emirates
t: +971 4 437 7200
e: mohammed.faheem@cbre.com

www.cbre.ae/uae_en/research

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