



Quick Stats

Change from

Lease Rates	Q3 10	Q2 11
Office	↓	↘
Residential	↓	↘
Sale Prices	Q3 10	Q2 11
Office	↓	↘
Residential	↓	↘

Hot Topics

- The Dubai Metro Green Line was opened in September with 16 out of the 18 stations already open for public use.
- Lease rates across the CBD remained stable with rents ranging between AED 1,076 to 1,938/sq m/annum.
- Villa lease rates have fallen by 10% over the past year whilst apartments have dropped by 19%.

OVERVIEW

Market activity remained largely subdued for the second consecutive quarter as Dubai's traditional summer slowdown unfolded with limited movement within the real estate sector.

Total residential transactions reached just 1,459 during the third quarter, against 2,649 transactions for the same period last year. The low number of completed deals, typified market performance in what turned out to be a very passive quarter.

As China, the US and the UK see their economic growth forecasts reduced by the IMF, the validity of the global recovery has again come under scrutiny.

With no shortage of economic headwinds prevailing in Europe and the US, the potential fallout from another liquidity crisis needs to be considered from a local perspective.

However, amidst an environment of growing negativity, the UAE has actually had its economic growth figures revised upwards by the IMF. New estimates project 2011 growth at 3.8%, up from 3.3% earlier in the year as the emirates continue on a modest path towards recovery.

In a slightly conflicting outlook on the state of the local economy, a recent HSBC report has suggested that private sector activity is starting to wane against slowing global trade volumes. However, this will not be sufficient to dampen economic expansion for 2011 at least.

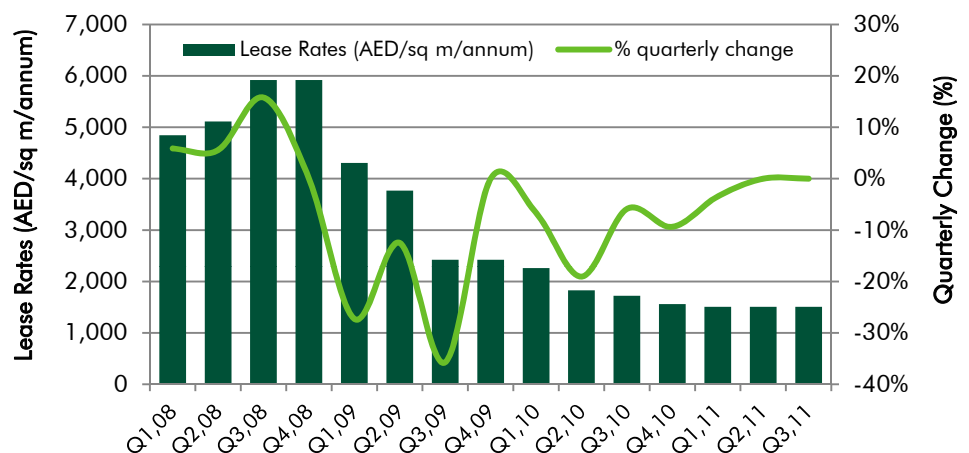
The Global Competitiveness Report (2011 – 2012) placed the UAE 1st in the region and 8th overall for quality of infrastructure. The opening of the new metro Green Line in September is testament to the country's continued progress in this field, with Dubai in particular, strengthening its credentials as a modern gateway city.

To date, 16 of the 18 stations of the Green Line are open for public use, with authorities expecting 100,000 passengers daily.

The new line passes through many of the most densely populated districts in Dubai, adding real value to the existing transport network.

Some stabilisation of rents and an increase in occupancy rates is anticipated in areas immediately surrounding operational stations as occupiers look to exploit the convenience of key public transport nodes.

CBD Office Lease Rates (Q1, 2008 – Q3, 2011)



OFFICE MARKET

After a brief lull, the Dubai office market has seen a modest increase in leasing enquiries during the month of September. The majority of these were from existing companies either looking to expand their activities or from occupiers located in older areas of the city seeking a move back to the CBD. On a positive note, the number of enquiries from companies looking at potentially entering the market for the first time grew during the quarter.

Lease levels across Dubai remained broadly stable during the quarter, whilst the CBD recorded its third consecutive quarter of flat growth. Rates in the prime central district now range between AED1,100 to 1,950/sqm/annum.

Rents for DIFC-managed properties have also remained broadly unchanged, although rates in privately managed buildings have dipped by around 8% from the previous quarter, largely due to the entry of new strata space as well as international occupier preference for single-ownership DIFC-managed properties.

As a result, DIFC-managed buildings have seen vacancy rates hold steady at around 5%, a healthy reflection of performance given the current global economic scenario and widespread cost cutting by financial services companies globally.

Office space within other commercial locations, including Business Bay, Jumeirah Lakes Towers, Dubai Silicon Oasis and Tecom C, continue to see deflationary pressures on both lease and occupancy rates as a result of increased inventory. Despite Business Bay's prominent location close to the existing CBD, its lack of infrastructure and an ever increasing inventory of stock, coupled with a high proportion of strata impacted accommodation, is resulting in a worsening outlook.

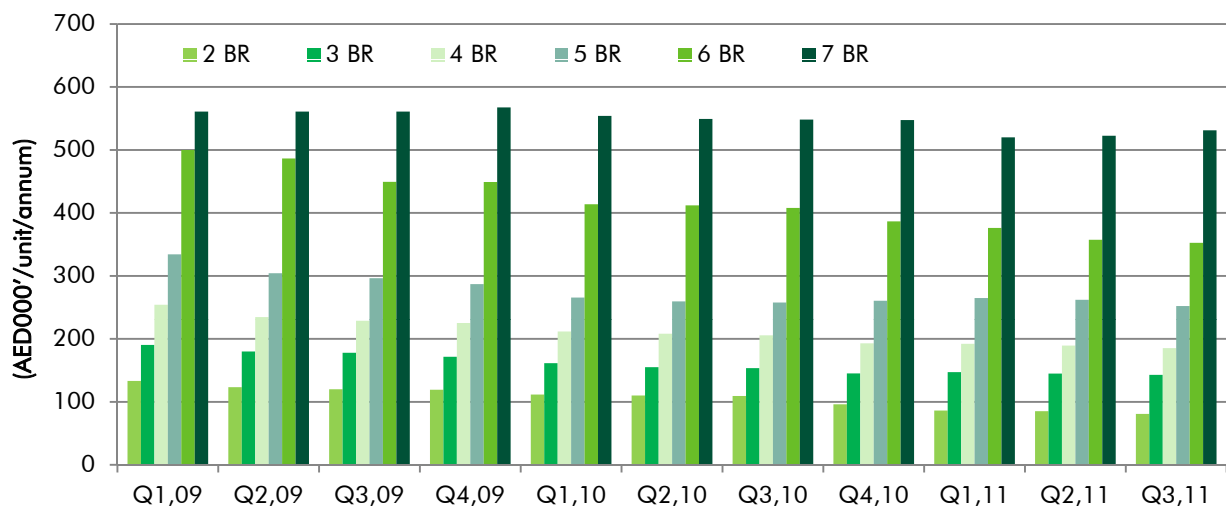
Average 'strata' lease rates in Business Bay during the quarter ranged between AED590 to 970/sq m with additional landlord incentives in the form of rent-free, fully-fitted spaces and relaxed payment terms. Around 0.45 million sqm of office space already exists in the development, with a massive surge in new supply anticipated over the next 18 months which will further impact on occupancy rates.

RESIDENTIAL MARKET

Lease rates for apartments and villas declined marginally during the quarter, but the market was characteristically quiet during the summer and Ramadan periods. On average, apartment rents fell by just 1% from the previous quarter, with the year on year fall at around 19%. The entry of properties in new developments over the last year has been instrumental in reducing overall lease rates across the Emirate.

A lack of infrastructure and community facilities continue to suppress rental potential and occupancy rates within newer residential development areas. Furthermore, the availability of properties at competitive rates in more established and developed master communities is forcing landlords to offer properties below market rates in order to reduce void periods and neutralise the loss of income through service charge dues.

Residential Villa Rents (Q1, 2009 – Q3, 2011)



Villa properties continue to outperform apartments as the more limited supply and strong demand for high end properties impacts overall performance. Despite this, average lease rates have dropped by 10% year on year - around half of the average decline for apartments during the same period. The most significant fall was in the two bedroom apartment category at 26%. The lowest drop was for five bedroom villas at just 2%, reflecting the fundamentals at play and the relative oversupply of small villa/townhouse units in developments in Jumeirah Village and the Mirdiff area.

A comparison of villa properties within freehold and leasehold locations revealed an 8.6% and 10.8% dip over the past 12 months respectively. The main drag on leasehold locations emanated from the Al Barsha and Mirdiff areas, which both saw significant deflationary pressure on rents due to rapid supply growth over the past two years.

One of the key trends within Dubai's villa market was the relative poor performance of smaller unit types. Two bedroom properties in both freehold and leasehold locations registered 44% and 20% declines respectively. Seven bedroom properties in freehold locations saw just a 3% fall during the same period as more limited supply and stronger demand fundamentals aided performance.

The premium/luxury sector of the villa market which had attracted increased investor interest during the peak, has also been effected by the economic crisis. However, the effect has been more minimal due to the relative limited supply in this category as compared to mid and low end products.

Overall lease rates across 'luxury' villa developments such as Palm Jumeirah, Jumeirah Islands and Emirates Hills have remained stable over the last nine months, much of which can be attributed to limited supply as compared to other residential unit types. However, new luxury villa developments lacking community facilities are experiencing greater pressure on lease and occupancy rates. For example, high end developments such as Al Barari are witnessing rates 15-18% lower than other prime developments in Dubai.

OUTLOOK

Despite a quiet six months, the real estate market looks set to enter the final quarter with some positivity. Commercial occupier interest now appears to be slowly on the rise as companies look to exploit prevailing conditions to secure long term cost savings for their business. Whilst the high end residential market seems to be benefitting from ongoing capital shifts in the region as a result of the 'Arab Spring'.

The health of the European and US economies will have to be closely monitored with a downward spiral in performance having potentially significant implications for debt financing and general liquidity conditions in the region.

Lease stability is expected to continue, although the fractional nature of the market will see occupancy rates come under further pressures in less desirable locations and for those negatively impacted by infrastructure issues.

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