

Quick Stats

Change from

Lease Rates	Q4 09	Q3 10
Office	↓	↓
Residential	↓	↓

Sale Prices	Q4 09	Q3 10
Office	↓	↓
Residential	↓	↓

Hot Topics

- The DIFC Authority clarified costs of doing business and reduced the annual base rental rates within the complex, applicable from January 2011.
- Office lease rates in the CBD have fallen by 9% from the previous quarter.
- Secondary and tertiary office locations have seen a drop in lease rates of 33% over the past 12 months.
- On average, apartment rates have fallen by 17% and villa lease rates by 13% over the past 12 months.
- Smaller units have shown the greatest rent falls.

OVERVIEW

2010 ended with a modest improvement in investor activity from both corporate and individual entities, albeit with a narrow focus property types. However, sales and lease rates continue to fall despite an easing of economic conditions and positive growth prospects.

Recent forecasts from the Dubai Chamber of Commerce indicate that the Emirate's economy is set to grow by 4.6% in 2011 and 6% in 2012. This level of economic expansion will lead to widespread job creation which in turn will have positive ramifications for real estate demand across all sectors.

A subdued investment environment in recent years has been reflective not just of challenging market conditions but also of sparse availability of investment grade stock. The recent sales of Emaar Square Building 5 and the Ritz Carlton DIFC, signify a more positive turn of events, fueling guarded optimism that the market is edging closer to both maturity and recovery.

A significant return of corporate interest during 2011 could denote something of a turning point for the market as a whole, although at this stage investor appetite seems quite rigidly focused on prime assets in select locations at competitive prices.

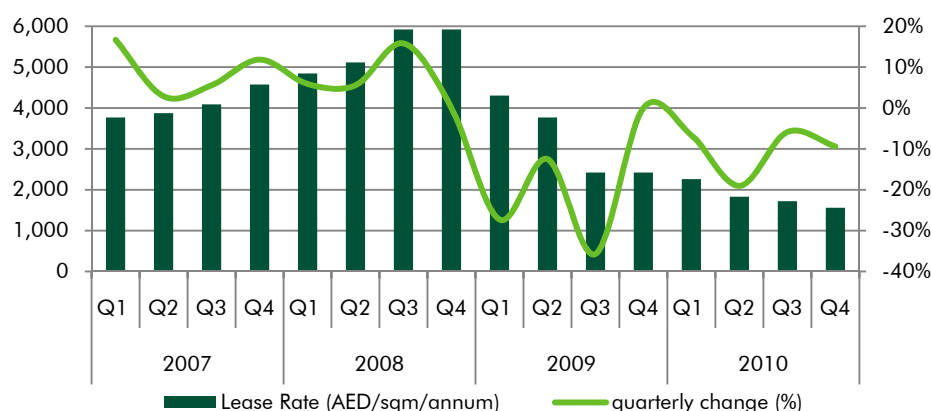
Expatriates with a long term focus and job security are again starting to weigh the merits of leasing over buying. However, at this stage the general mindset is still one of caution with most investors choosing to hold for further assurances of economic growth and improved credit.

A number of important measures were taken during the quarter to improve the overall business environment at both Dubai and national levels.

These reforms include a reduction in the validity of residency visas from three to two years, the abolition of the six month employment ban for skilled workers and provisions for free movement of unskilled labour after completion of two years employment. The remodeling of the employment law is taken as further evidence of constructive progress towards a mature labour market. Specifically, one with an established talent base in country to help foster economic growth and attract foreign investment.

DIFC announced a number of major changes regarding operational costs and rental rates. The changes will impact legal and set-up costs, as well as rental rates. The publication of rental rates is intended to provide greater transparency whilst making DIFC more attractive to international occupiers.

CBD Office Lease Rate Movement – (Q1, 2007 to Q4, 2010)



OFFICE MARKET

Stress on the commercial office market continued during the final quarter with weak demand and a constant flow of new supply in the Emirate's freehold locations. Lease rates in the prime CBD area fell by around 9% over the previous quarter with year on year rates indicating a drop of around 36%. Current lease rates in dedicated office towers in the CBD range between AED1,185 to 1,940/sqm/annum. These rates are lower than the prevailing levels in 2005.

Types of ownership continue to play a major role in the positioning of lease rates, with many strata title owners willing to offer space below perceived market levels in order to bolster occupancy levels and stay ahead of anticipated future declines.

Lease rates in secondary and tertiary locations currently range between AED430 to 1,075/sqm/annum, with only a marginal drop recorded over the previous quarter. However, lease rates have dropped by an average of 33% over the course of the year.

The financial crisis has forced occupiers to closely examine their cost base and become more aggressive and innovative when negotiating lease terms. Similarly, for landlords to remain competitive in the face of such overwhelming supply, they too have had to become more creative in their offerings. As a result, one of the growing trends for new office spaces has been for landlords to absorb the cost of fit out, whilst for already fitted space, space is being offered at reduced ever-reducing rates.

The reversal of market fundamentals over the past two years has resulted in both landlords and tenants seeking to secure longer lease terms. A shift away from traditional short term leases of 1 to 3 years has seen a growing emergence of 3 to 7 year terms with tenants now also bargaining hard for long rent-free periods. In response, landlords are looking for greater protection through tenant security with rent free periods distributed across the entire length of the lease and no-break clauses implemented.

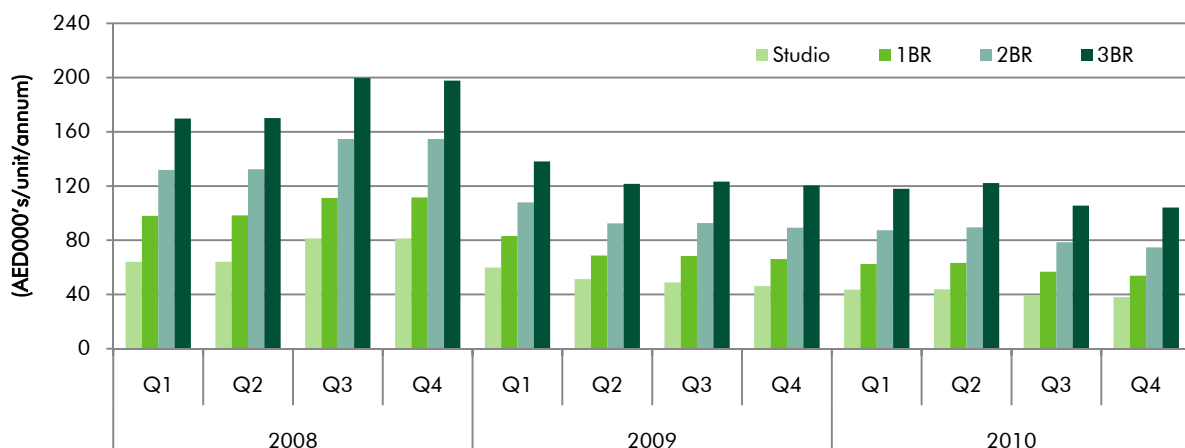
RESIDENTIAL MARKET

Residential apartment lease rates in both the freehold and non-freehold areas of Dubai have dipped by around 4% during the quarter. On a year on year basis the decline has been more pronounced with a drop of around 17%. The biggest drop in apartment lease rates is once again recorded for the smaller unit types - studios and one bedroom units. Over the last 12 months lease rates for studio and one bedroom units have shown substantial declines of around 18% and 19% respectively as affordability across the market makes larger units more attainable.

The villa market has closely mirrored the pattern of apartments during the quarter with lease rates dropping by 5%. On an annual basis, the drop was just 13%, with the smaller villa sizes of two and three bedroom units witnessing the biggest reductions.

Diminishing lease and occupancy rates have resulted in some landlords being willing to absorb service charges on behalf of the tenant, whilst others are offering rent-free periods as an incentive. Other landlords are offering rates of 10% to 12% below prevailing market levels in order to secure tenants willing to pay their rent a full year in advance.

Apartment Lease Rates – (Q1, 2008 to Q4, 2010)



Notable handovers from new developments at Dubai Sports City, Al Barari, The Villa and Jumeirah Village will further aggravate the oversupply situation during the course of 2011. The lack of developed community facilities within many of these emerging locations will also add further strain to achievable lease and vacancy rates as the value proposition and expectations of rental returns for investors suffer markedly.

With a number of other major villa projects under construction, it is likely that this segment of the market could see expanding vacancy levels over the next 12 months, particularly in the newer freehold locations. More established and well-managed communities will continue to fare better as occupiers vote with their feet and seek out better quality products as affordability grows.

OUTLOOK

2011 will see a mix of positive and negative sentiment entering the market which is likely to lead to another challenging, yet interesting, year for the market. Oversupply will remain a fixture for the foreseeable future in both the office and residential sectors but some of the negativity may be offset by forecasts of a significant economic recovery over the next two years. Economic expansion is set to drive growth in real estate demand both locally and internationally, although it is unlikely to result in a return to positive sales or rental rate growth in the short term.

Overall the real estate sector will remain under stress with occupancy levels dropping further across all asset classes due largely to the onset of massive new supply. Prime locations with completed infrastructure and developed community facilities will continue to attract interest on the capital and leasing side and are expected to perform better during the course of the year.

Service charges and mandatory housing tax are likely to represent two of the major gripes for investors and unit owners in the year ahead. The additional loss of revenue for investors is untimely to say the least with rental yields already heavily eroded by falling rents.

Some positive changes are anticipated in the form of further market regulation and the implementation of existing laws, specifically the improvement to transparency through the disclosure of service charges which will bring some much needed clarity to facilities costs.

Despite current market challenges, Dubai continues to offer attractive mid to long-term investment opportunities, with well laid infrastructure, an investor-friendly business environment and well structured real estate laws. Target assets are likely to be distressed sales from individual entities and quasi-Governmental agencies looking to raise short term capital. These unique conditions could provide opportunities for investors with long term objectives to enter the market and acquire trophy assets at a discounted value.

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