CB RICHARD ELLIS
MarketView

Dubai, UAE

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Q3 2010

Trends

Lease Rates	Change from Q3 09	Change from Q3 10
Office	↓	↓
Residential	↓	↓
Sale Prices	**Q3 09**	**Q3 10**
Office	↓	↓
Residential	↓	↓

Hot Topics

- Government sponsored Tayseer scheme launched to help bring finance to selected troubled construction projects in the Emirate.
- Lease rates in the CBD area (excluding DIFC) dropped by around six percent during the quarter.
- The DIFC Authority has eliminated or reduced a number of fees imposed by the Registrar of Companies (ROC) as it looks to lower occupier costs in the DIFC estate.
- Dubai office stock increased by 14.7% during the first three quarters of 2010.

OVERVIEW

Real estate market activity remained passive throughout Q3 due largely to the culmination of the peak summer season, the traditional holiday period for many expatriates, and the Holy month of Ramadan. Historically, and even at the peak of the real estate cycle, this period has experienced significantly reduced activity and this was case once more in 2010.

Further evidence of the Government's important role in the market recovery has been provided with news of wide ranging amendments to a number of key laws. It is understood that the Ministry of Economy is in the process of revamping the existing Commercial Companies Law, Competition Law, Auditors Law, Arbitration Law, Investment Law, Industry Law, Certificate of Origin Law and the Anti-Fraud Law.

The changes are aimed at improving transparency, creating a better regulatory environment, and also boosting the overall performance of the business environment, both on Federal and local levels.

At local level, the Dubai Land Department introduced the Tayseer scheme to initially provide finance to 40 projects currently under construction in the Emirate. Under the scheme, banks and other financial institutions are permitted to offer finance to identified schemes which will be guaranteed by the Government.

Initial target developments are understood to include Dubai Marina, Business Bay and Jumeirah Lakes Towers, wherein projects which are 60% completed and sold to investors could be offered finance.

During Q3 significant amendments were made at the Registrar of Companies (ROC) in DIFC, covering retail and non-retail companies as well as to regulations of the DIFC Limited Liability Partnership, General Partnership, Limited Partnership and Special Purpose Company.

The changes include the elimination of fees in 61 categories, a reduction of fees in 10 categories and a slight increase in fees in 12 categories. The implementation of these regulations clearly indicates the Government's commitment in further developing the services sector of the economy which continue to remain a major contributor to the overall economy of the Emirate.

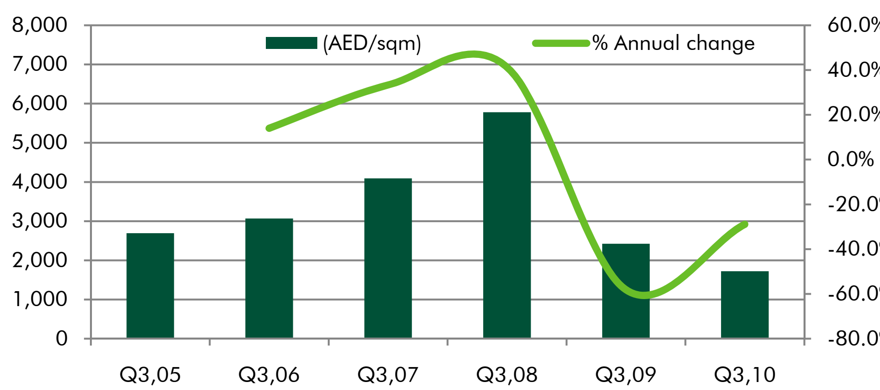
OFFICE MARKET

Office lease rates experienced a further decline across all business districts during the quarter as new supply hit the market. Average lease rates in the CBD were registered at AED1,722/sqm/pa, reflecting a drop of 6% over Q2. Current lease rates in the CBD are now below 2005 levels, as the market continues to struggle to build any momentum.

Lease rates within DIFC have also experienced a marginal dip, with rents in DIFC Authority managed buildings ranging from AED3,230 to 3,770/sqm/pa. Space within privately managed buildings is available from AED2,600 to 3,230/sqm/pa.

Secondary and tertiary locations which have witnessed mounting levels of new supply continue to suffer from weaker demand fundamentals and lower than average occupancy ratios.

CBD Office Lease Rate Movement – (Q3, 2005 to Q3, 2010)



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

Newly completed office towers in particular are facing real difficulties in securing tenants as competition between landlords escalates.

The quarter has been notable for the entry of a number of new office towers in the Business Bay area, although occupancy levels are likely to remain low in the short-term as key infrastructure projects continue to lag behind. Around 150,000 sqm of office stock is now complete, while an additional 50,000 sqm is almost complete and should be ready for actual occupation during the next two quarters. The lack of proper road infrastructure, retail facilities and the ongoing construction of neighbouring projects continue to impact would-be occupiers in the area.

Vacancy levels in Business Bay are currently hovering over 80%, although this high rate can be largely attributed to the lack of existing infrastructure and facilities within the development. The situation is expected to see an improvement over the next six months as more offices are fitted-out and made ready for occupation. To date, all office stock available for occupation in Business Bay has come from buildings with less-popular multiple-ownership status, another potential reason for higher than average vacancies.

In an oversupplied market differentiation of product is one of the keys to success, and upcoming product in single-ownership buildings will certainly have this attribute. As the implications of fractional ownership become more clear to tenants, the gap between performance is expected to grow, with single-ownership buildings maintaining a rental premium over strata title space.

The tenant mix within Business Bay for known and completed moves includes a number of trading houses, law firms, IT firms attracted to higher quality accommodation, better facilities and adequate parking. The more attractive lease rates that are now widely on offer, are also a major driver of such moves.

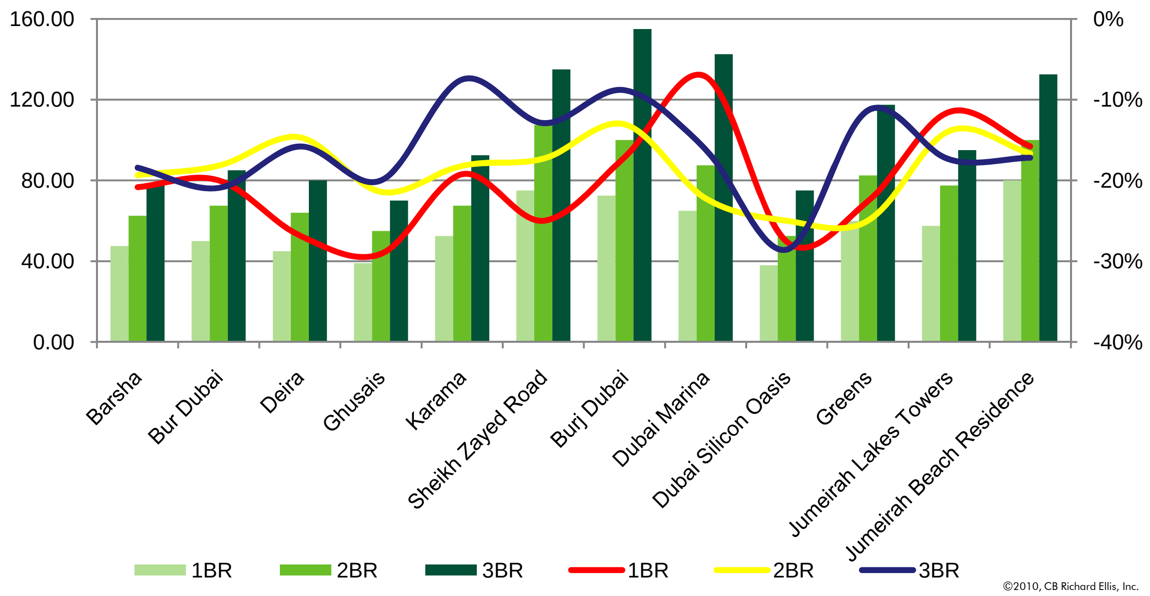
Overall, the first nine months of 2010 saw close to 700,000 sqm of new space, representing a 14.7% increase in total stock. Much of this new space has entered in the Jumeirah Lakes Towers, Business Bay and TECOM developments. The impact of this new supply has once again resulted in lower lease and occupancy rates, and an increase in landlord incentives. Continued growth in stock and a flattened demand pattern indicates that the market is still to find its feet, with longer term stability still some way off. Analysis of the development pipeline alongside prevailing market fundamentals would seem to point towards further rate declines before year end.

RESIDENTIAL MARKET

Downward pressure on leases continues across virtually all areas of the Emirate. In the 12 locations highlighted in the graph below, average rental rates for one, two and three bedroom apartments have dipped by an average 13% on a quarterly basis, whilst on an annual basis they have declined by 18%. The biggest drop has been for one bedroom units with a 20% decline. This can be attributed to the relocation of tenants to bigger unit types as lease rates have fallen away and become more affordable.

Among the six non-freehold locations reviewed, the biggest fall in rates occurred in the Al Ghusais area with a 17% drop. The smallest decline was in the Karama area. A sharp increase in residential supply in Muhaisanah and Al Nahda acted to further mount pressure on lease rates in the neighbouring Al Ghusais area. On average, lease rates in these areas are lower by 12-15% when compared to Al Ghusais. In the freehold areas, downward pressure on occupancy and lease levels is most pressing in Dubai Silicon Oasis, where rates reduced by 16% on a quarterly basis and 27% over the last year.

Apartment Lease Rates – Q3,2010 and Annual Change



The Emirates housing tax of 5% will become mandatory for all residential units from January 2011. The calculation of the rate is based on the annual lease amount while for properties being used by investors in freehold areas, it will be based on the average RERA Rental Index. Properties which remain vacant in freehold areas are also subject to the tax, which means investors have to shed extra value on top of service charges. At a time when levels of market activity are already low, this ruling is likely to act as a further deterrent to investment in the residential market.

OUTLOOK

The demand and supply imbalance across all property sectors is expected to continue through the remainder of the year resulting in sustained downward movement of lease rates in the short term. The residential sector is expected to feel further aggravation during Q4 and Q1 2011, with completed properties awaiting entry into the market from the developments of Business Bay, Dubai Sports City and Jumeirah Village. A significant number of towers in these developments have now been completed for some time but have been held back from the market due to long running infrastructure delays.

The situation in the office market is actually somewhat worse than the residential market. Of the total expected office space for 2010, around 65% has already entered the market with the remaining 35% scheduled to enter during Q4. However, looking at the overall pace of construction and the continuation of infrastructure delays faced by these projects, it is expected that a large proportion of this space could actually shift its entry further into next year.

The entry of office space at the Business Bay development will see the existing CBD area expanded further west towards the second interchange. At this point it is quite clear that ongoing infrastructure issues and a lack of community services within the development, will remain as deterrents for potential occupiers, although this situation should slowly improve in the coming quarters.

On a more positive note for Business Bay, the quality of product on offer and the existence of competitive lease rates, make the area a notably better proposition than some of the older and more congested business areas around Dubai creek. The trend of occupiers moving away from old Dubai is one which is expected to continue for the foreseeable future, which can only be positive for the newly developed freehold locations. The expected opening of the Business Bay Metro Station is also likely to add further weight and support to tenants eying Business Bay as their new office location.

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