

Quick Stats

Lease Rates	Change from	
	H2 09	H1 10
Residential	↓	↓
Office	↓	↓

Hot Topics

- Average apartment lease rates across the Northern Emirates have dropped by 17% since H2 2009.
- Highest drop over the past year has been for one bedroom apartments which have dropped by 20% followed by two bedroom units by 16% and three bedroom apartments by 14%.
- The 'flight to quality' trend evident since the beginning of 2010 has continued through the year.
- Office lease rates in the Northern Emirates range from AED260/sqm/pa in Umm Al Quwain to AED860/sqm/pa in Sharjah.

OVERVIEW

The Northern Emirates property market reflected the subdued economic environment during H2, 2010 with little new demand for residential or office properties. The UAE's tepid economic performance over the last 24 months has had a major impact on the real estate sector with rents continuing to slide against the backdrop of oversupply and uncertainty over future recovery and growth prospects.

The performance of individual Emirates continues to fluctuate widely with Sharjah and Ajman currently feeling the brunt of Dubai's overhang of space. An ongoing situation of depressed demand and increasing supply is further compounded by the outflow of occupiers to Dubai encouraged by a growing availability of quality, yet affordable accommodation and fears of a prolonged period of infrastructure problems.

A 'flight to quality' has been evident across the market since the beginning of 2009 and this trend continued throughout 2010. Competitive lease rates coupled with landlord incentives continue to drive tenant migration to newer, larger and superior specification buildings. Older buildings with lower specifications are witnessing a sustained slump in lease and occupancy rates as a result of the pressure from new supply.

The substantial drop in rental levels has helped to compensate tenants who have experienced increased utility charges over the last year. The irony of such a rise is surely not lost on residents and businesses alike given the sporadic power outages that have plagued sharjah in recent years.

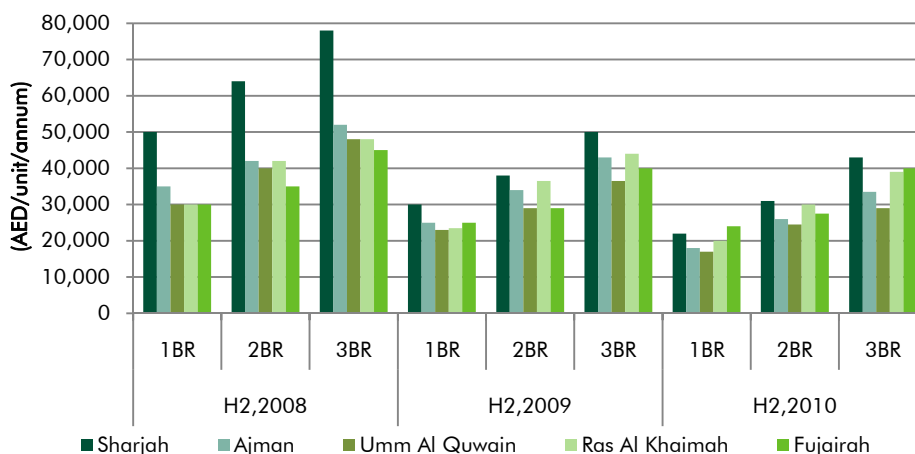
Ras Al Khaimah and Fujairah have been less affected by the cyclical dynamics of Dubai due largely to greater reliance on locally generated demand rather than spillover demand generated by Dubai - a function of their geographic remoteness.

Lease rates for office space and residential units in Fujairah have held up better than other Northern Emirates due to the limited supply of residential units, continued usage of residential units for commercial purposes, and a slower delivery programme of new units to date.

However, Fujairah is about to experience substantial expansion of its inventory with significant growth in the residential, retail, hospitality and industrial segments.

Importantly, infrastructure developments are also progressing very well with many large scale projects now under construction. This has resulted in increased employment opportunities in the Emirate at a challenging time for the wider economy.

Apartment Lease Rates - (H2 2008 to H2,2010)



The recent announcement by the Federal Government of an allocation of AED4 billion for ongoing development projects is also likely to fuel additional economic expansion over the coming years, which will come as timely boost to the local economies of the Northern Emirates.

RESIDENTIAL SECTOR

Construction completions within freehold and leasehold areas continue, maintaining the pressure on lease and occupancy rates with the result that residential rental rates declined for an eighth consecutive quarter as slowing demand and an overhang of completed supply aggravated already weak market conditions. However, the impact of rapid construction rates has been moderated by delays at a significant number of projects where handover has been postponed due to difficulties securing electricity and other infrastructure connections.

Notable supply during H2,2010, included the release of 93 villas from the Mina Al Arab development in Ras Al Khaimah. According to the information released by the developer, initial handovers in Precinct 4 of the development included 6 luxury villas, 41 standard villas and 46 townhouses. Current asking rates for a three bedroom villa range between AED100,000/pa to AED120,000/pa, while four bedroom villas range between AED140,000 and AED150,000/pa.

Average apartment lease rates across the Northern Emirates have dropped by 17% during 2010 with the biggest fall being for one bedroom apartments, which have fallen by 20%. This was followed by two bedroom units with a 16% dip and three bedrooms at 14% down. The rate declines clearly reflect prevailing market trends, most specifically current tenant preferences for relocation to bigger and better units on completion of existing contracts.

The largest rental declines in the Northern Emirates occurred in Ajman which has seen lease rates dip by around 25%. This was followed by Umm Al Quwain and Sharjah with falls of 21% and 20% respectively. Average lease rates in the Northern Emirates at the end of H2,2010 ranged between AED17,000 to AED24,000/pa for a one bedroom apartment; AED24,000 to AED31,000/pa for a two bedroom apartment and AED29,000 to 43,000/pa for a three bedroom apartment. The lowest rates were identified the Emirate of Umm Al Quwain.

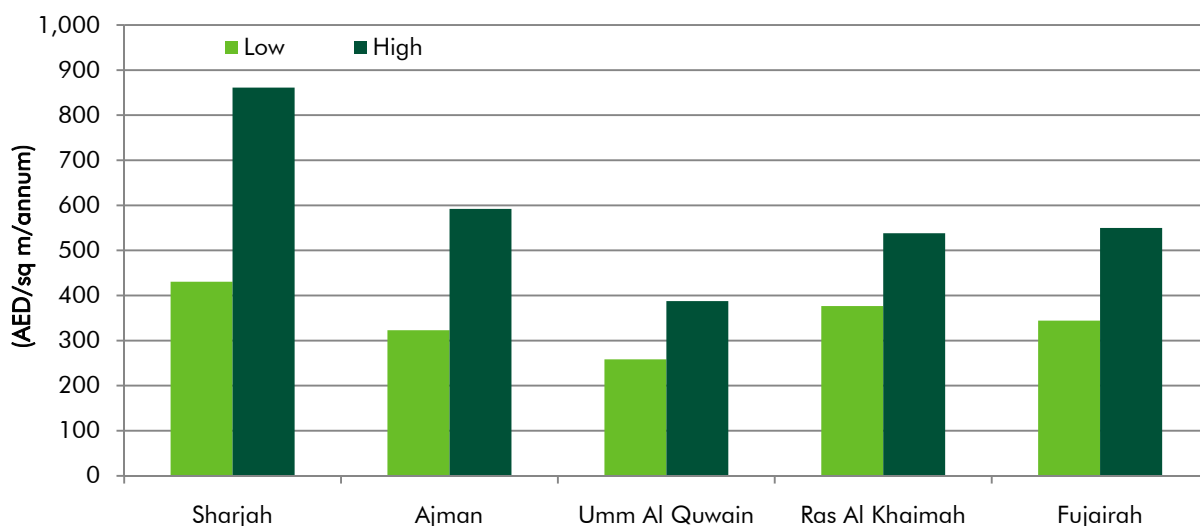
Apartments meeting high standards in prime locations have largely managed to maintain their occupancy levels and premium lease rates. Properties on Buheirah Corniche or Khan Lagoon in Sharjah range between AED 38,000 to AED78,000/pa for one to three bedroom units, whilst in Ras Al Khaimah apartments in Al Hamra Village for Golf and Marina are currently achieving lease rates in the range of AED35,000 to AED70,000/pa for one to three bedroom units. Similarly, in Fujairah newly completed properties on Sheikh Hamad Bin Abdulla Street are currently achieving lease rates between AED40,000 to AED65,000/pa for two to three bedroom units. Although the lease rates have dropped considerably since peak, these properties continue to experience strong demand.

Outside prime areas, continued weak demand has fuelled the emergence of landlord incentives. Landlords are currently offering deferred payments terms of up to 12 instalments, rental rates inclusive of chiller charges, free parking and rent free periods typically ranging from 15 to 30 days.

OFFICE SECTOR

With the exception of Sharjah, the office market in the Northern Emirates is still in a nascent stage with a limited number of dedicated office buildings. Historically, demand has emerged from local trading houses, engineering firms and consultants, and typically falls in the Class B category. However, an increase in business activity over the past five years has led to growth within the financial sector (banks & insurance) which in turn has generated demand for better quality space and more dedicated office properties.

Office Lease Rates By Emirate – H2,2010



Increased demand for office space during the recent economic boom years resulted in many developers switching their focus from residential to commercial use. However, current prevailing weak demand and widespread use of residential apartments for office purposes pose a real threat to emerging office properties. Lease rates in residential conversions are currently around 15 to 20% lower than in dedicated office properties and with no planning enforcement to prevent this, the dedicated office space continues to suffer.

In terms of quality, the majority of office accommodation in residential conversions is of a very low specification with typical features including ceramic floor finish, fibre board ceilings, split air conditioning systems and no provision for floor boxes, internet connection or covered parking facilities.

Lease rates in the Northern Emirates currently range from AED260/sqm/pa to AED860/sqm/pa. The lowest rates are again achieved in Umm Al Quwain, whilst Sharjah, with its dedicated office towers, continues to command the highest lease rates amongst the Northern Emirates. Office towers with the highest specifications have generally been able to maintain the strongest occupancy and rate levels. Quality office accommodation in the Fujairah Trade Centre and Fujairah Tower is currently 100% occupied and commanding the highest rates in Sharjah.

OUTLOOK

The sheer volume of residential stock in the development pipeline across the Northern Emirates poses a major problem for the market that will ultimately lead to further rental declines. Our forecast for the next 12 months is for a further 10-15% drop in residential rental rates. The biggest declines are expected in Ajman and Umm Al Quwain due to their proximity to Dubai and Sharjah which both have huge volumes of available supply at declining rental rates.

Upcoming supply in Ajman will be spread between a number of large mixed-use developments and scattered individual projects now all nearing completion. The first buildings at the Ajman One project are expected to see handover in the last quarter of 2011, presuming no additional delays are experienced with infrastructure and power.

Umm Al Quwain has several newly completed residential towers still awaiting utility connections, as well as the Mistral Villas from the Umm Al Quwain Marina project which are now structurally complete but awaiting infrastructure works to progress. These new completions are likely to see further rental reductions with additional downward pressure on occupancy rates.

In Ras Al Khaimah, around 1,400 residential apartments are expected to be handed over shortly at Royal Breeze (Phase III) at the Al Hamra Village development. The apartments will be released in phases with the first three buildings scheduled for delivery in Q1, 2011 and the remaining two buildings in Q2, 2011.

Although Fujairah has historically lagged the rest of the UAE in terms of construction activity, the Emirate is now witnessing a mini property boom. Activity is largely concentrated in the Al Shariah and Ishwais areas with around 25 buildings ranging from 8 to 25 storeys under construction. Completed properties in these areas are currently achieving rental rates of AED20,000 to AED22,000/pa for one bedroom apartments and AED35,000 to AED40,000/pa for two bedroom apartments. However, in consideration of the large number of units close to completion, lease rates are expected to drop during 2011, whilst the evolution of landlord incentives is also widely anticipated.

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