CB RICHARD ELLIS

MarketView

Abu Dhabi, UAE

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Q3 2010

Trends

Change from

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

Hot Topics

- Abu Dhabi experienced small signs of recovery in the real estate market in Q3 2010.
- Companies are actively encouraging employees to reside in Abu Dhabi.
- Ongoing infrastructure developments and Government related investments are seen as vital demand generators for both residential and commercial products.
- The expansion plans of UAE's leading airline companies include hiring 80,000 employees by 2020.

OVERVIEW

Q3 2010 ended with some subtle signs of a recovery with rising activity within the property market. These upbeat trends were however largely restricted to the residential sector, where an increased number of leasing inquiries and transactions took place as compared to the same period last year.

The office market remains subdued with rental rates continuing to decline, and leasing transactions scarce on the ground. Further delays to key projects have constrained the market during 2010, and 2011 now looks to be the year for occupier movement within the commercial market.

Abu Dhabi's more established malls continue to lead the way, maintaining very high occupancy rates and achieving high rental rates compared to the performance of newer retail market entrants.

Ongoing infrastructure projects and the expansion of major industries within Abu Dhabi are supporting strong fundamentals and generating essential demand for new residential products. Once again, it is seen to be the key Government-initiated projects that are proving most crucial in this regard, helping to stir-up local market dynamics.

Moving forward, the reliance on federal investment stimulus could be viewed with some degree of negativity. However, at this stage of the market cycle it is considered to be paramount to the future growth potential of the Emirate.

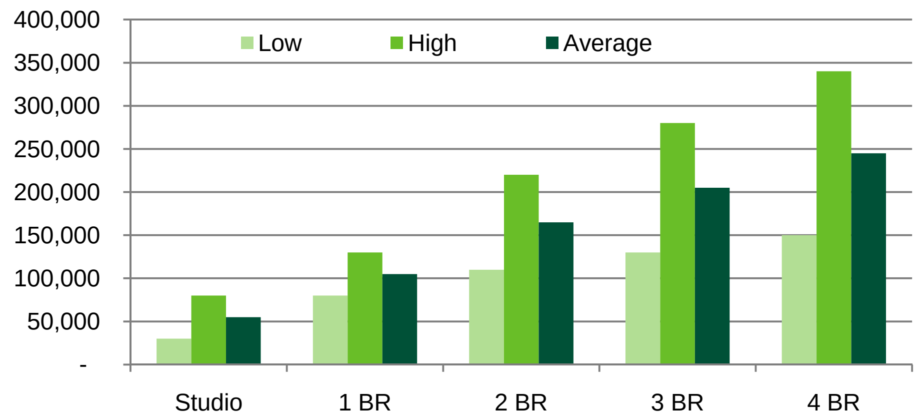
Improvements to the living and working environment are viewed as essential in order to attract new companies to the Emirate. Abu Dhabi is thus faced with the challenge to further develop both its soft and hard infrastructure facilities in anticipation of continued economic and demographic expansion.

As part of an emerging economy, Abu Dhabi still has significant advancements to make before its infrastructure facilities are properly aligned with the needs of an expanding population and commercial hub. That said, several major transport related works are now well advanced, helping to improve overall connectivity and crucially enabling more development.

Abu Dhabi's leading carrier Etihad Airlines, has announced plans for a massive future expansion of its workforce that will see total staff numbers grow from 8,000 to 27,000 by 2020. Etihad has issued a directive requiring all staff to live within the capital or risk losing their housing allowance. A similar stance has been taken by a number of Abu Dhabi companies in an effort to reduce commuter congestion between Dubai and Abu Dhabi.

Historically, there have been major cost issues for companies and employees in Abu Dhabi due to primarily to the high cost of living created by an undersupply of residential units. However, as Abu Dhabi experiences a sustained period of rental decline, the Emirate is becoming more competitive and affordable once again.

Average Residential Unit Rental Rates, Abu Dhabi (AED/year)



Source: CB Richard Ellis

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RESIDENTIAL SECTOR

Significant improvements are now being noted in the leasing market as greater choice and more realistic rents come in to play. Despite an overall slowdown in rents and a steady inflow of residential product, it is evident that some locations and developments still command significantly higher rental rates. The key determining factors are typically location, product quality and access to facilities and amenities.

Q3 2010 has proved to be something of a milestone quarter for Aldar Properties, as the first units were successfully delivered at Al Bandar, Raha Beach most of which were sold during the launch phase. Al Reef Villas also saw the completion and handover of new properties with around 750 villas now completed. An additional 500 units are also in under construction and penned for imminent delivery by master developer Manazel.

The emergence of new off-island communities such as Raha Beach and Al Reef is helping to transform the core dynamics of the market. A substantial number and variety of new residential offerings are now available with tenants finally afforded a more suitable choice of accommodation. Provision of proper facilities and amenities is now becoming more commonplace as the inadequacies of older residential stock are realised and developers look to offer a more integrated community lifestyle for their tenants.

OFFICE SECTOR

The Abu Dhabi office market continues to see negative rental growth while stock levels see steady expansion. The inverse relationship between rents and increasing supply, highlights the divergent rate movements in different phases of the market cycle. Peak office rents were achieved during a period of exceptional economic growth, combined with a severe undersupply of available office accommodation. The opposite is now true as a growing availability of low grade space has an impact on overall vacancy rates.

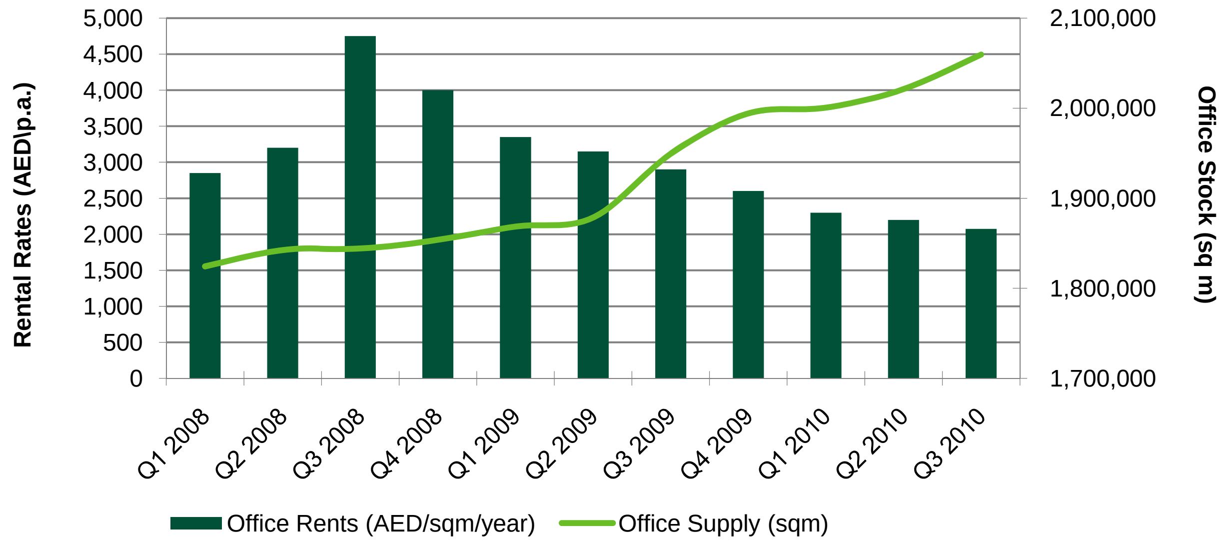
During the quarter, office rents ranged between AED1,400 to 2,750/m²/pa, a 6% reduction from the previous quarter. A number of Government organisations and private firms are now actively looking for new office accommodation in the capital, although overall demand remains low as sentiment on the direction of rental rates remains negative.

The combination of specific building attributes and locational factors make rental variations for office accommodations more significant. Secondary locations and low grade accommodation will continue to see downward pressure on rates as better quality product comes to the market. A flight to quality is already occurring, although the handover of significant new grade A assets during 2011 will make it the year for tenant movement.

Pressing economic circumstances continue to push commercial space landlords to be more flexible in their tenant negotiations. With an increasing supply pipeline, and prevailing weak demand fundamentals, the mindset of some landlords is now moving away from rental preservation towards avoidance of long-term rental voids. The ability to find a secure income stream during this testing economic time has thus become a very serious objective for some parties, just in order to service their existing debt payments.

More prudent occupiers in the capital are thus looking to exploit the tenant-friendly market and find a long-term solution to their office needs. In this challenging environment the emergence of longer term leases is an obvious development, as occupiers look to tie down landlords to more attractive offers and landlords seek greater financial security.

Abu Dhabi Office Rents and Supply Level



OUTLOOK

Positive economic growth forecasts and major expansion in the commercial sector are likely to be the chief drivers for growing demand in the residential market. However, despite expectations of more encouraging conditions ahead, the leasing market will continue to see some volatility in the short-term as schemes complete and new communities are established.

Short-term localised pockets of oversupply are a possibility within new development areas, with many tenants remaining vary until product quality can be quantified and any teething problems with infrastructure resolved. The role of the owner occupier is also likely to be important, however the actual level of influence will be easier to understand once more residential stock is handed over and more solid trends start to appear.

The emergence of new commercial districts outside the existing CBD poses both a challenge and an opportunity to the overall market. As more office developments enter the market, a further softening of rents and increasing vacancy rates are anticipated, especially for inferior products. Developers will now have to look at creating significant points of difference in their product to help make them stand out in a highly competitive market.

Overall, Government initiatives remain vital to the fortunes of the Abu Dhabi market and to the UAE as a whole. The spillover effect from major public investment throughout the economy is much needed stimulus for the property market.

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