

Quick Stats

Change from		
Lease Rates	Q2 09	Q1 10
Residential	↓	↓
Sale Prices	Q2 09	Q1 10
Residential	↓	↓

Hot Topics

- Q2 saw the opening of the Armani Hotel at Burj Khalifa and the Al Maktoum International Airport.
- Average lease rates for apartments in our eight selected locations have dropped by 33% since Q2, 2008.
- Landlords opting for greater security provisions within lease contracts.

OVERVIEW

The second quarter started with some positive sentiment building events for the Dubai market. The opening of world's first Armani hotel, within the Burj Khalifa, added another crown to the world's tallest tower.

The other major opening of the quarter, was of course that of the Al Maktoum International Airport which welcomed its first flights on the 27th June 2010.

Major infrastructure completions during Q2 included 10 new metro stations which took operational facilities to 21 of the total 29 on the Red Line. The additional stops now offer new and improved transport linkage to major residential areas, including Al Karama, Ibn Battuta and Dubai Marina, which could have a positive effect on local real estate moving further forward.

RESIDENTIAL MARKET

Residential lease rates during Q2 showed minimal deviation over the previous quarter as some short term stability was found. However, analysis of the year on year figures indicated a decline of 33% for the areas selected. The highest drop was noted for one bedroom units with -37% change during the period.

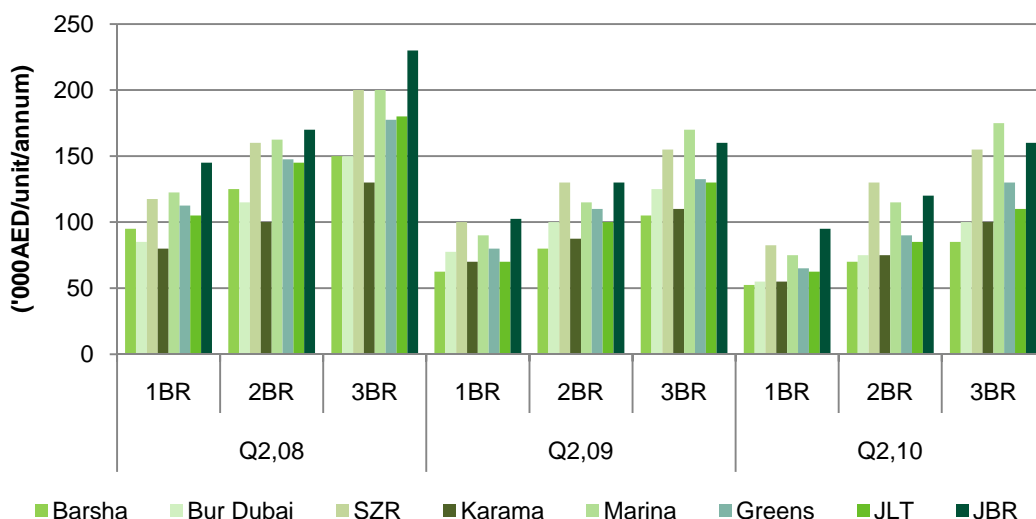
The lowest drop has within the three bedroom category, with a -29% change. The notable differential in performance was seen as a consequence of two key factors. Firstly, significant new supply from within smaller unit types, and secondly the overall improvement in affordability that has allowed tenants to opt for larger units at a lower price.

Among the non-freehold locations covered, Al Barsha was found to have suffered the most severe drop in lease rates with a decline of 44% over the market peak.

The highest drop in the freehold category has been within the Jumeirah Lakes Towers and the Greens developments, which have seen lease rates dipping by 40% and 36% respectively.

The impact of reduced lease and occupancy rates, and increased tenant movement within the market, has influenced many landlords to seek greater security provision within their lease agreements. This trend has included the implementation of rental penalties for those contracts broken during the agreed lease period, to discourage tenants from moving mid-lease.

Apartment Lease Rates – Q2, 2008 to Q2, 2010



Source: CB Richard Ellis



Quick Stats

	Change from	
Lease Rates	Q2 09	Q1 10
Office	↓	↓
Sale Prices	Q2 09	Q1 10
Office	↓	↓

Hot Topics

- Lease rates in the CBD (excluding DIFC) have dropped by 17% during the quarter.
- A 5% increase in overall office stock compared to previous quarter.
- Infrastructure delays have held up significant supply of new office space.

OFFICE SECTOR

Office lease rates within the CBD which had been holding relatively firm over the last two quarters started to dip sharply during Q2. The emergence of new office space from both existing buildings as well as a number of new towers (either completed or in final stages of construction), has resulted in increased competition and notably reduced lease rates of up to 17% in some cases.

A number of residential conversions utilised as office space during the peak of the real estate cycle, have now started to return back to their original status. Increasing vacancy rates, office closures and widespread availability of dedicated offices at attractive rates have been the main drivers for this trend.

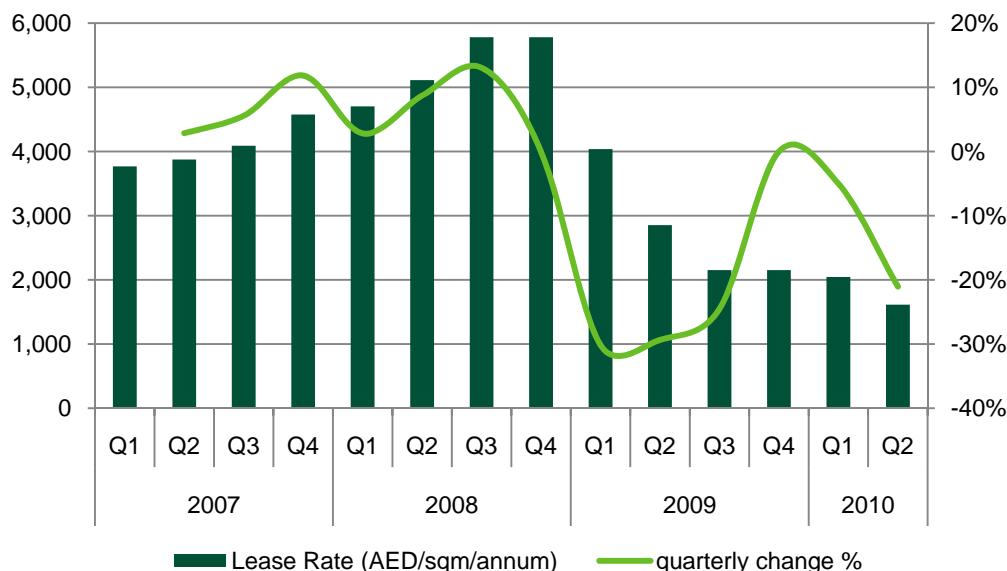
Office space from within the DIFC also witnessed a drop during the quarter with rates reducing by an average of 7.5%. Current lease rates in the DIFC estate are now around AED 3,982/sqm/annum, while space from private developers is currently being offered in the range of AED 2,690-3,014/sqm/ annum.

As of Q2 2010, the distribution of office space within the DIFC by ownership status, stood at 39% private developers and 61% from the DIFC Authority. This picture is expected to change dramatically over the next three years as new buildings complete and strata supply increases exponentially. Provided construction and infrastructure delays are at minimal, the DIFC development will see the proportionate share reverse to 72:28 in favour of private developers by 2012.

The main concentration for upcoming office supply will come from the Business Bay development, wherein multiple office towers are now in their final stages of completion, or close to finish but experiencing power or infrastructure delays. Considering the current state of infrastructure, it seems unlikely that any of these properties would actually hit the market during H2, 2010 which means further office supply will be shifted into 2011.

Dubai office stock continues to see a steady upward trend, with a quarterly growth of 5%, or an addition of 0.24 million sq m. The key locations for this entry of new space included Al Barsha, Tecom C, Jumeirah Lakes Towers, Port Saeed, Al Mamzar, Airport road and Diyafa Street.

CBD Office Lease Rate Movement – (Q1, 2007 to Q2, 2010)



Source: CB Richard Ellis



OUTLOOK

The real estate market is expected to remain relatively passive during the next quarter, as the impact of the summer slowdown and the holy month of Ramadan are concluded. Historically markets during this period of the year remain subdued and hence further pressure on the lease and occupancy rates is likely.

A huge number of new residential units are still expected to handover during the remaining two quarters of the year, and with it lease rates are likely to fall further.

Although a number of banks have now reduced their LTV ratios and mortgage rates, the majority of lenders continue to refrain from normal lending procedures. Specifically a number of banks have upheld their restrictions on lending to individuals employed in certain sectors of the economy. With a huge number of ready to move in properties available in the market, some relaxation of lending conditions could act as a positive catalyst for the transactional side of the market.

For more information regarding the MarketView, please contact:

Matthew Green

Head of Research & Consultancy UAE
CB Richard Ellis Middle East
Emaar Square Building 6, Level 8
Dubai | United Arab Emirates
t: +971 4 437 7200
e: matthew.green@cbre.com

Mohammed Faheem

Senior Research Analyst
CB Richard Ellis Middle East
Emaar Square Building 6, Level 8
Dubai | United Arab Emirates
t: +971 4 437 7200
e: mohammed.faheem@cbre.com

www.cbre.ae/uae_en/research

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