

Trends

Lease Rates	Q4 08	Q4 09
Office	↓	↓
Residential	↓	↓
Sale Prices	Q4 08	Q4 09
Office	↓	↓
Residential	↓	↓

Hot Topics

- Vacancy rates in the CBD are still prevailing in single digits, but some secondary locations are now over 30%.
- Approximately 0.58 million sqm of new office space entered the market during 2009.
- Infrastructure and transportation projects remain on track despite the slowdown in real estate projects.

OVERVIEW

The real estate market remained sluggish during the final quarter of 2009 with few signs to suggest any imminent upturn in fortunes. According to the Dubai Land Department statistics, in Q4, 2009 there was a total of 520 transactions, a drop of 17.7% compared to Q4, 2008. In terms of value, the total land transacted equated to AED3.43 billion, compared to AED5.09 billion in 2008.

Although construction activities for real estate projects have slowed down considerably, infrastructure and transportation projects have continued to show exceptional progress. This broadly reflects the Dubai Government's strategy and firm commitment to improving the Emirate's internal structure, in order to aid future growth. Other prominent projects which continue to progress well include the Burj Khalifa with an inauguration date of 4th January 2010 and the Meydan Race Track, which is scheduled to host the Dubai World Cup in March 2010.

The annual 'Cityscape' property exhibition held in October saw the number of exhibitors and visitors falling compared to the previous year. The event also saw a huge decline in new project launches, a reflection of the vastly altered market landscape in 2009. The 2009 Cityscape saw a return to reality with a far greater focus on the construction status of developments and on completed property.

OFFICE MARKET

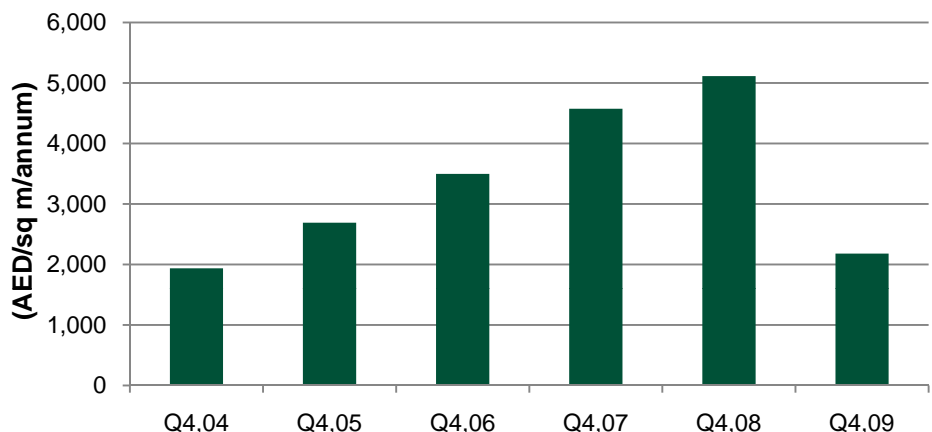
Lease rates which had previously hardened on the back of significant economic growth and an undersupplied office market during 2006 to 2008, continued to drop during 2009 as demand remained weak and supply increased substantially.

Rental rates in prime business areas, excluding DIFC, ranged between AED1,950 to 2,400/sqm/annum during the quarter with little change from Q3,2009. A comparison of year-on-year figures highlights a considerable drop of 57%, but this is largely reflective of the negative impact felt in the Emirate over the last four quarters.

The market downturn has forced a number of companies into downsizing programmes intended to cut costs. This in turn has increased the availability of discounted fitted-out space as tenants look to reduce liability to leases taken during the market boom. Generally we have found occupiers offering space at 35-45% lower than their actual lease interest.

Although lease rates have dropped more than 50%, occupancy rates in the CBD are predominantly faring better than secondary and tertiary locations. Vacancy rates in the CBD are still largely prevailing in single digits, whilst in secondary locations it is in some cases now over 30%, mainly from newer locations. A substantial upturn in demand will now be required in order to slow rising vacancy rates in 2010.

Office Lease Rate Movement – (Q4,2004 to Q4,2009)



Sliding lease and occupancy rates continue to incentivise landlords to offer rent free periods, inclusion of service charges, and multiple cheques. In a few cases, it is noted that landlords are even willing to contribute to fit-out costs, however this was apparent only for longer lease terms of five years and more, as well as larger office space.

New office space continued to emerge from existing as well as new office districts. During the course of 2009 a total of 0.58 million sqm of new office accommodation entered the market from both freehold and non-freehold locations. The majority of this space (approximately 54%), was in the freehold locations of Dubai International Financial Centre, Dubai Silicon Oasis, Jumeirah Lakes Towers and TECOM C. The remainder, 46%, was from non-freehold locations.

The majority of office space in freehold locations was pre-sold on strata title with only a limited number of towers actually being held by a single owner - approximately 49% of the total new stock which entered during 2009 was sold on a strata title basis. The ratio of strata to single ownership buildings will shift significantly during 2010, as the vast majority of expected new office supply has been pre-sold on strata basis. The most notable office space development area likely to enter the market in 2010 is Business Bay. Five or six commercial office towers are either completed and awaiting handover or are now in their final stages of completion.

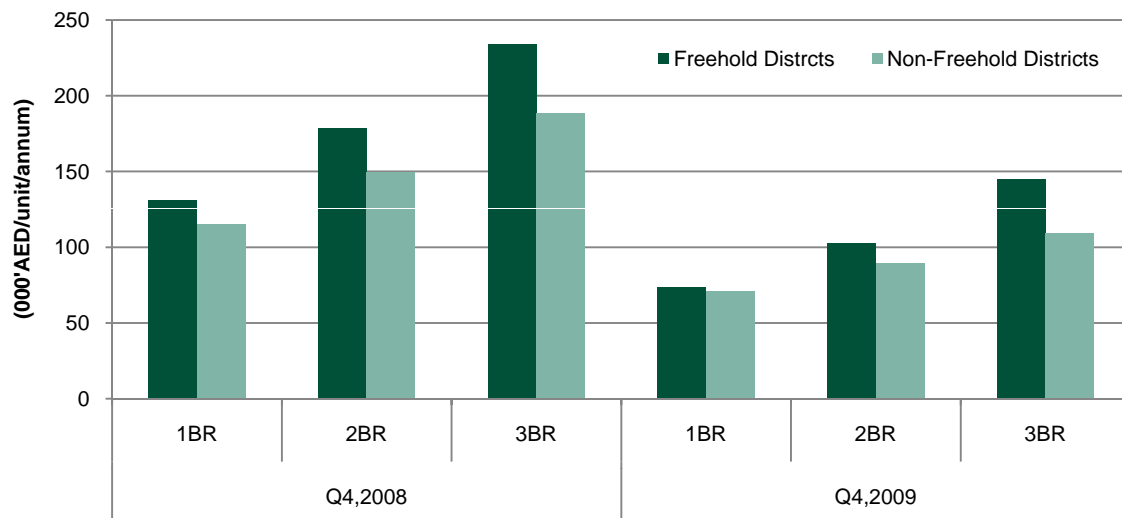
RESIDENTIAL MARKET

A high volume of new supply coupled with lower demand continues to affect leasing rates across virtually all major residential districts of Dubai. However, it should be noted that the fall in Q4 was minimal compared to the three previous quarters in 2009. A comparative analysis of eight residential districts highlighted that lease rates had dropped by 41% and 40% in the freehold and non-freehold locations respectively on a year-on-year basis. Prices are still holding in the historic residential areas of Bur Dubai and Karama compared to the newer residential districts such as Al Barsha. The accessibility of these areas to both the old and the new Dubai neighbourhoods makes it a favoured location for expatriate residents. The inception of the Dubai Metro has also helped ease some of the niggling transportation issues for local residents.

Declining lease rates during the year saw a steady migration of residents to newer locations closer to their place of work and there was also a marked shift towards larger units. The average lease rate for a three bedroom apartment in Bur Dubai during Q4 was between AED90,000 - 110,000/unit/annum which was similar to prevailing rates in Q4,2008 for a one bedroom apartment. The considerable drop in lease rates together with favourable landlord incentives, has resulted in an increasing number of tenants terminating their contracts on completion of their lease in order to seek better alternatives.

2009 saw the entry of new residential locations from the freehold areas of International Media Production Zone (IMPZ), Dubai International Financial Centre (DIFC) and also Motor City. The average lease rates for a one bedroom unit in IMPZ and Motor City during the quarter ranged between AED50,000 and AED60,000/unit/annum while two bedroom units ranged from AED65,000 to AED80,000/unit/annum, depending on location and view. In the majority of cases, the above rates are inclusive of service charges, which are paid by the owner. With the drop in sale rates, investors are now more inclined towards leasing property and holding until the market shows positive signs of recovery.

Lease Rates Comparison For Residential Units – Q4, 2008 to Q4,2009



Freehold districts : Dubai Marina, Greens, Burj Dubai and Jumeirah Lakes Towers;

Non-Freehold districts: Bur Dubai, Sheikh Zayed Road, Karama, Al Barsha

OUTLOOK

In terms of the commercial office space market, lease rates have already bottomed out in some cases with rents reflecting 2005 levels. Lease rates in the CBD area are unlikely to experience any marked shift with limited new supply in the short-term. However, newer areas which are already experiencing high vacancy rates are expected to see rates dip further as competition for tenants continues to lead landlords towards greater incentive packages. The handover of a significant volume of strata title office space is expected to create issues for both landlords and occupiers. With most buildings sold to multiple investors, leasing of contiguous units and floors could well be problematic.

Lease rates for residential units are likely to see a further small contraction during the course of the next year as a substantial volume of new residential accommodation (apartments and villas) reaches the final stages of construction. It is expected that new supply will have the most affect on villas units, with a high number of new developments helping to significantly increase supply in this sector. However, units in more prime central locations, and areas of notable undersupply are expected to experience minimal rate movements as demand is maintained. Villa developments expected to be handed over in 2010 include Jumeirah Village, The Villa and Al Waha Villas. Apartment rates are also likely to experience a small drop in rates during 2010, but these are unlikely to compare to the declines in 2009.

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